

Muhammad Khan
Inward Foreign Direct Investment

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How can Pakistan increase its inward FDI

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LIST OF ABBREVIATIONS

BOI- Board of Investment

FDI- Foreign Direct Investment

HR-Human Resource

IAS-International Accounting Standard

IDA-Industrial Development Authority

IGRA-International Government Rating Agencies

IPPs- Independent Power Producers

KSFs- Key Success Factors

MNEs-Multinational Enterprises

NIEs-Newly Industrialized Economies

NOC-No Objection Certificate

R&D-Research and Development

ROI-Return on Investment

SBP-State Bank of Pakistan

SWOT-Strength, Weaknesses, Opportunities and Threats

TIP-Transparency International Pakistan

UAE-United Arab Emirate

UK-United Kingdom

UNCTAD-United Nation Conference on Trade and Development

US-United State

WIR-World Investment Report

ABSTRACT

Competition for foreign direct investment (FDI) among both developed and developing countries is fierce and by all empirical evidence, Pakistan is losing out.

According to Board of Investment (BOI) Pakistan's FDI fell by 44.7% in the year 2009-2010, compared with 2008 (Arslan, 2010). According to the State Bank of Pakistan (SBP) FDI has for July-April (2009-2010), indicating \$1.72 billion as was \$3.20 billion for 2008. The documents show that FDI in Pakistan was 3.52 billion in 2005- 2006. In 2008 and 2009, in order to decline in economic growth and attack from terrorism, its FDI level fell to \$3.72 billion. As terror attacks increased, investment continued to drop, to \$1.72 billion in 2009-2010. (Arslan, 2010)

Pakistan must increase the volume of its FDI. The importance of taking decisive actions to increase foreign investment is not disputed. FDI is vital for Pakistan prosperity. According to Moran, (1999) FDI provides the financial capital, technology, managerial skills, jobs, tax revenues, information and goods and services that contribute to making a country's economy more competitive. This in turn promote sustainable economic growth, which translates into reduced poverty, higher standard of living and desperately needs to increase the volume of its FDI in order to successfully complete the transition to a market economy and return to its status of the most "powerful country" in the world. (Moran, 1999)

Theodore (1999) discussed in his book "Foreign direct investment and development" that two impact of FDI have on the potential development on the host country economy, first the net addition of inputs and second the influence that enable the domestic country economy for competition.

Thus, the purpose of this project is to identify and analyse the ways of increasing the volume of FDI in Pakistan. The whole work consists on two different approaches. The first approach is the identification of the main barrier to invest in Pakistan. In this section, the researcher is looking for the reasons why Pakistan is not making full use of its investment potential. Is it because of the ineffectiveness of Government promotion and facilitation or because of a difficult investment? Can the political and economic situation be considered stable in Pakistan? Does the inefficiency of the legal system establish negative impacts on the investment climate of Pakistan? What is the level of corrupt bureaucracy, and security

situation and how does Pakistan take to improve the investment climate in the country? On the basis of such analysis, the researcher makes recommendations to Pakistan on how it can reduce the barriers to increased inward FDI volume.

In the second part, of the project the researcher identify and examine the key success factors (KSFs) in attracting FDI of the top recipients in the world; the USA, the UK, China and Ireland.

It is trying to identify those essential common key factors that are valued by most investors are crucially important for any country in order to attract investment. Thus, it wants to create some guideline for Pakistan based on the experience of top recipients on “what should Pakistan do to be successful and what factors should Pakistan implement and develop in order to increase its FDI”

CHAPTER 1

INTRODUCTION

This chapter introduces the reader to the background of the research topic. The definition of FDI and its role in the modern world (this is the theoretical foundation of the study). This section is analysing the world FDI trends and directions, FDI's shifts and identifying the leading providers and recipients of foreign capital. The author is going to review about FDI in South Asia and Pakistan. Such analyses are necessary in order to determine the status and role of Pakistan in FDI distribution. At the end the aims and plan of the study will be given.

1.1. Background of FDI

There are many definitions for FDI cited in the different literature and interpreted by different writers. In this study, the researcher uses the definition of

- a) According to the international monetary fund's Balance of payments Manuals defines (Moosa, 2002, p1) that "FDI is an investment that made acquire a lasting interest, in an enterprise operating in an economy other than that of the investors, the investor's purpose being to have an effective voice in the management"
- b) The UNs world report 1999 defines that "FDI as an investment involving long term relationship and reflecting a lasting interest and control of resident entity in one economy. In an enterprise, in an economy other than that of the foreign direct investment" (Moosa, 2002,p1)

1.2. Types of FDI

According to Columbus (2007), in South Asia countries there are three types of inward FDI.

First, Investment in natural resources; the investors mostly invest in natural resources in which the top one is a mineral like Oil, Fuel, gas and Coal. Second, Investment to serve the domestic market; access to domestic markets and established manufacturing industries to offer cheap consumer's goods in domestic markets, and third, Investment in export oriented industries; the investors invest in south Asia region for the purpose to use the countries flat form for their own products and services.

Kojima's divides FDI in two parts trade oriented FDI and anti trade oriented FDI. (Moosa. 2002).

According to Chen Ku FDI has two different parts; first, Expansionary FDI; the investors explore to exploit distinct advantages through sales growth in the investing country and host country and second, Defensive FDI; the investors seek to exploit cheap labour of the host country for reducing the cost of production. (Moosa. 2002). (For more details of types of FDI see appendix)

1.3 Role of FDI

According to Daniels et al (2004) that FDI is one of the most influential and discussable topics of the international community. Today the officials of different countries stress the vital to the role of foreign direct investment both as the source of prosperity for their countries and as a driving force for economic globalization.

Thus, FDI increase the optimum distribution of global resources, expedite industrial restriction, stimulate the global technology transfer, promote innovations in the economic systems and technology and therefore, foster economic growth and increase integration of the global economy. These are all the benefits for the international community. (Daniels et al.2004)

Daniels et al (2004) said that, FDI also provide many benefits for individual economies. FDI brings financial capital, technology, managerial skills, jobs, tax revenue, information and goods and services that contributed to making the economy of any countries as an FDI recipient more competitive. This in turn, promotes continue economic growth, which leads into reduced poverty, higher standards of living and greater opportunities for all the citizens of the country.

The issue that FDI is good or bad for the economy and culture of the host country is on one side but, everybody agrees that FDI help to management, capital, technology, quality control, and highest penetration in external markets. FDI contributes of human resource training, transfer of skills and technology and management capacity between different enterprises. ("Development," 1999 online)

1.4. Global FDI: trends, direction, volume and main suppliers and recipients

In 2004, global FDI rose slightly after three years of consistent decline (\$ 730.3 billion in 2004, compared with \$ 652.2 in 2003 and 616.9 in 2002) (UNCTED, world investment report 2005). In 2005, the global FDI inflows sustained such growth and rose by 29% to \$ 897 billion. The rebound was as a result of increased flows to developing countries. (UNCTAD Investment Brief 2006)

In 2004, around 36% of all global FDI went to developing countries. Seven of the ten economies, while the ten largest increase in FDI were developed countries (UNCTAD, World Investment Report, 2005)

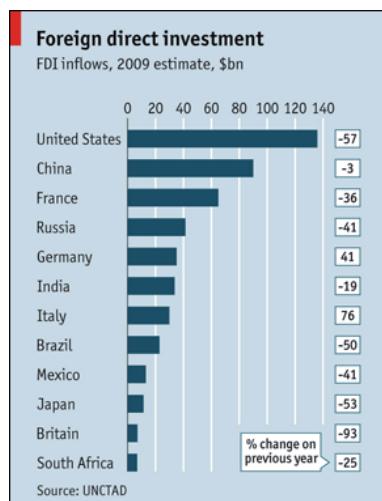
According to UNCAD Investment Brief, (2006) Developed countries had problems in attracting FDI because many investors were shifting their investments to low-cost economies in Asia and Eastern Europe.

However, in 2005 developed countries saw a significant 38% increase of FDI inflows after the four year slump. The rise was led by mounting inflows to the United Kingdom, which became the top FDI destination for the first time since 1977. (UNCAD Investment Brief, 2006)

According to the World Investment Report in 2004, the United States (US), United Kingdom (UK), Luxembourg, Australia and Belgium were the five leading developed countries in attracting FDI. China is the third country in the world in receiving FDI (The first developed countries in Asia). Germany, Switzerland and Netherlands are not included in the 20 top countries receivers of FDI. This is quite surprising as they held top positions in previous years. In 2004, Ireland, it is only No 15 of the top 20 countries worldwide for inward FDI compared in No 7 in 2003. Thus, FDI in Ireland decreased dramatically from \$26 billion in 2003 to \$9.1 billion in 2004, (Global News Wire, 2005, LexisNexis). Russia over takes Ireland and takes place No. 14 in this ranking with dollar value to 9.4 billion. However, it does not mean that Russia is more successful in attracting FDI than Ireland. Russia's per capita cumulative FDI lags behind Ireland and many other countries. (Global News Wire, 2005). (For more details see appendix)

Inward FDI decline in mostly in the developed and developing country in 2009 which is shown the figure below:

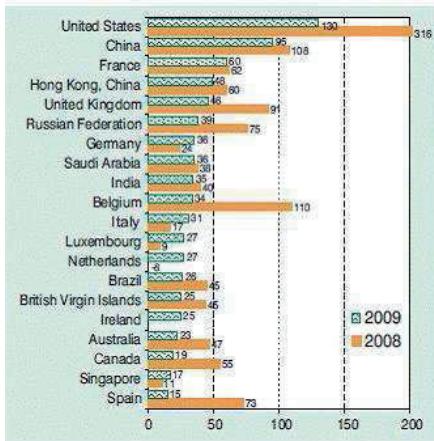
In 2009, in all three economies developed, developing and progression the flow of FDI decreased. After 6 years of continuous growth of FDI inflow to developing countries FDI flow decline by 40% in 2009. In 2010, the FDI inflow recovers in developing countries instead of developed countries. The decline was not so serious during economic down turn in 2000-2003 as compare to 2008-2009. (“team,” 2010)



Source: UNCTAD (2010)

Fig: 1.1

Figure 1.4. Global FDI inflows, top 20 host economies, 2008–2009^a
 (Billions of dollars)



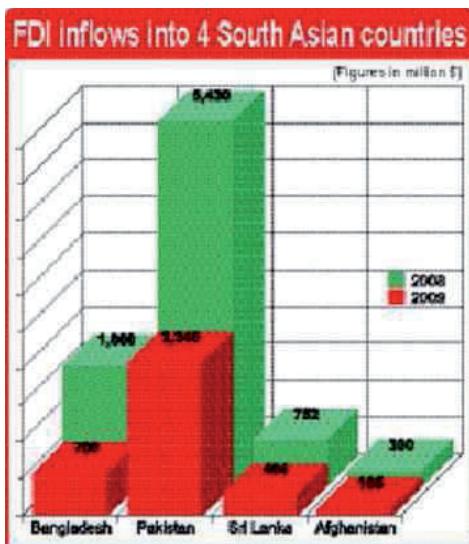
Source: team (2010)

Fig: 1.2

The above figure shows that the economy down turn affects the region differently; the most affected area is North America. FDI inflows to USA decline by 60%, Canada and Japan declined by 51%, Europe Union decline by 33% in 2009. (“team,” 2010)

1.5. FDI inflow to South Asia countries

According to the World Investment Report (WIR), (2010), FDI has been declined mostly in South Asian Countries, 2009 compare to 2008. Samad, (2010), mentioned that FDI inflows to developing economies declined by 27 per cent to \$548 billion and FDI flows to develop the economy decline by 44 per cent to \$566 billion in 2009.



Source: Samad (2010)

Fig: 1.3

From the figure above Bangladesh received \$700 million FDI in 2009, compared to \$1.86 billion in 2008, India received \$34.61 billion FDI in 2009, compared to \$40.14 billion in 2008, Pakistan received \$2.38 billion FDI in 2009, compared to \$5.43 billion in 2008, Sri Lanka received \$404 million FDI in 2009, compared to \$752 million in 2008, Afghanistan received \$185 million FDI in 2009, compared to \$300 million in 2008.

1.6. Trends, Issues, and Economic Impact of FDI in Pakistan

According to Khan et al (1999), from 1976/77 to 1995/96 the foreign investment rose 25%. In order to, invest in the power sector investment inflow rose by 93.3% in 1995/1996. Moreover, he explained, there are three kinds of inward FDI in Pakistan. First, Cash brought in, this one is the biggest share for FDI in Pakistan which is 55.7% for the last 20 years. Second, capital equipment brought in, its share is quite low for the last 20 years but in 1991 - 1994 during the reform period it rose up to 55.7% while cash brought in a decrease to 50.2% and third, re-invested earnings, its share is quite low which is less than one third to FDI

which is more decline during the post reform period to 23%. The most sectors which attracted FDI manufacturing industries, mining and commerce which are accounting more than 83% of total inflow of FDI and the rest of FDI has been divided among agriculture, transport, storage and communication.

1.7. FDI in Pakistan



Source: Mandviwalla (2010)

Fig: 1.4

The above figure is showing yearly FDI in Pakistan since 2001. Mandviwalla (2010), said that in 2009, Pakistan recorded 2% economic growth which was worst in last few decades. Pakistan faces too many problems in these days like global crisis, the financial crisis, and the energy crisis and security situation and flood effects. In order to close ally of the US in combating with terrorism Pakistan will get 7.5 billion from the US which will improve the growth of the economy. According to BOI the top three countries providing FDI to Pakistan are the United States, with 347.5 million dollars, Britain, 119 million dollars and the United Arab Emirates, 121.8 million dollars. (Mandviwalla, 2010)

1.8. The project aims to;

Researcher aim of the research will be to do analysis of the current situation regarding FDI in the world; main shifts, tendencies, trends, volumes and also FDI distributions (top FDI supplier and recipients) and examine what role Pakistan is playing in it.

Further researcher will examine the current investment climate in Pakistan especially the barriers that restrict the increased volume of inward FDI.

Researcher will also analyse the KSFs in attracting FDI of top FDI recipients and applying the most prominent of them to Pakistani conditions.

Test from the Primary Research what essential KSFs Pakistan has already in its position and what factors it needs to improve or implement.

Researcher will then provide recommendations on how Pakistan can compete successfully for FDI on the global market and therefore, increase volume of its inward FDI.

1.9. Plan of study

The government of Pakistan has undertaken several steps to increase the volume of inward FDI to Pakistan. Pakistan still attracting significant volume of FDI with regard to the size of its economy but there are some barriers through which the country did not get the same amount of FDI as compare to others developing countries, (Khan et al 1999) therefore; this paper attempts to find that “How Pakistan can increase volume of its inward FDI?”, via looking its internal problems and the best world practice by detail research and deep analysis.

The rest of this paper is arranged as following.

Chapter1. Introduction

Chapter2. Critical literature review

Chapter3. Research methodology

Chapter4. Presentation and Analysis of Findings

Chapter5. Recommendations and Conclusion

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction to the Chapter

This dissertation examined that “how Pakistan can increase volume of its inward Foreign Direct Investment” based on selected journals and theories of FDI. In this chapter the researcher investigates the reasons for low level of FDI in Pakistan, provided some details about FDI like Introduction to FDI, Trends, and Issues of FDI, critical analysis and the main barriers to FDI in Pakistan.

Some details about Pakistan, FDI in Pakistan, current stock of inward FDI, FDI per capita and FDI tendencies in Pakistan will be explained in this chapter.

2.1 LITERATURE REVIEW

According to Cano (2002), the process of studying, analyzing, evaluating, and summarizing intellectuals’ materials about a particular topic is called literature review. Cano (2002) said that a critical assessment of the current situation of materials or current state of the art in a particular field is literature review.

The researcher agree with Cano (2002), the researcher need to spend time to read some relevant literature in regard to research topic, which prevent the researcher from errors or redevelop the same knowledge which has already been done.

2.1.1 Purpose of a Literature Review

Cano, (2002), explained the purpose of literature review is to provide the researcher relevant up to date material according to the research topic and to know the ideas of other people about the same topic. It might help the researcher to know his own assignment and to know different view of different authors on the same topic. Furthermore it also summarised and analysed the literatures review it save the time which has been allocated for the dissertation.

2.1.2 Mechanics of Writing a Literature Review

According to Cano (2002), the researchers need to read because it will give ideas, and might improve writing style. The researchers need to develop some basic reading strategies and have to decide that where, what and how to re

2.2 Theories of FDI

FDI has explained by Imad.A.Moosa, (2002), in his book foreign direct investment: theory, evidence and practice that one of the several approach through which an enterprise inter to the international market. These theories are assisting the effect of FDI on host country firms and economy.

According to Takatoshi, (2000), FDI is known is a tool through which a host country resources and capabilities' can be improved. FDI helps to the welfare of a host country academic and policy maker this is the main reason that every developed and developing countries is seeking FDI.

Moran, (1999) explaiend, that FDI is the most important source of external finance for many countries. Much of the researcher have focused that FDI mostly brought development in the less develop economy then developed economy. Severe corruption, rules and regulation and tariff in the host country discourage FDI. FDI helps to develop host country economy through domestic sources of capital, transferring and developing technology and expertise, creates jobs and promotes export. FDI has some disadvantages such as kill or acquire the domestic market in order to strong economy power. It is expected to disturb the local culture, custom and behaviour and exploit the skill labour of the host country on low cost.

2.2.1 Imperfect Theory

Theories based imperfect on market describe in book "Determinants and systemic consequences of international capital flows" by Morris et al (1991) has been analysed FDI, through industrial organization and internalization. (This theory has been further explained in appendix)

2.2.2 Theory of firm approach

Columbus, (2007), indicated in his book "Asian Economic and Political Issues" that FDI can increase the host country economy by enlarge domestic saving and investment. Transfer of technology which increase competaion in the host country market, increasing export earning of foreign exchange. FDI can makeout several other types of positive steps to the economy. FDI gives the global integration process a large incentive by helping link markets for capital and of the host country economy. It is possible to transfer higher technology, higher management and inflow of the capital which lead to export market.

The researcher agrees with Columbus, (2007), that mostly the stronger economy targets the poorest and the smallest economies. There is no doubt that FDI play a significance role in the development of economy. Mostly the poorest and the smallest economies relied on the outward oriented economy. These economies have lack of natural resource, small domestic markets, lack of entrepreneur and lack of domestic savings. (the remaining of this theory is explained in Appendix)

2.2.3 The Benign model of FDI

According to this Model by Moran, (1999) the low level of productivity effect the economy like a circle such as low level of productivities leads to low level of wages, which leads to low level of saving, low level of saving leads to low level of investment and low level of investment leads to low level of productivities. To increase productivities of economy of the poor and small countries, the FDI can supply effective managements, entrepreneurs, marketing and technology. (The remaining detail of the model is explained in appendix)

2.3.4 The Malign model of FDI

The Malign model of FDI by Moran, 1999 is completely contrasted to the Benign Model of FDI. Mostly FDI ignore law of the host country. FDI practices of his culture, behaviour, norms and other undesirable social action. High quality of labor is exploited on low cost. Pollution, health and safety problems are created. Instead filling the gap between saving and investment by reduce rents, prefers to access to domestic market and local supply of exchange. Rather closing the gap between investment and foreign exchange it might pull out the domestic firm from business. To invest in the host country industries FDI drain capital from the host country. In order to use of higher technology and higher management function it reduces the cost of unskilled labours.

2.3.5 FDI Imply Productivity Growth for the Host Country Economy

Elmawazini, et al (2005), indicated in his journal “Does FDI Imply Productivity Growth for the Host Economy?” that FDI grew faster than world production, capital formation and trade. Two factors that possible the way for FDI. First the advance technology those MNEs have, second to increase the profit and share of the local firms. These two factors affect the production and growth of domestic firm by changing their method of financing, marketing, productivity and managerial skills. (For more details see Appendix)

2.3.6 The potentials of FDI

Johnson (2005), journal “the effects of FDI inflows on host country economy growth” It is indicated that the potential of FDI affect on the host country growth. It is argued that the physical inflow of capital and technology create link between FDI inflow and the host country economy growth.

Balasubramanyam et al (1996) argued that Inflow of physical capital increases the economic growth of the host country but for the growth in the host country technology play a greater role then capital.

Mah,(2010) describe that FDI inflow increase the growth rate of developing economy not developed economy. Export promoting strategy and but not import promoting strategy increase economic growth.

Zhang, (2001) explained, FDI increases growth rate where higher level of institutional capabilities such as property right, protection, strong judiciary and bureaucratic efficiency and high amount of human capital. FDI's inflow could increase economic growth of the host country, but trade regime and macroeconomic stability are necessary.

2.3.7 FDI inflow and economic growth

According to Maria, (2005), MNEs have some competitive advantages like new technology, higher volume of economics scale and higher skill management through these advantages operate businesses for profit in foreign countries. She emphasised that there are strong relationship between knowledge and technology for the growth of the host country economy. Knowledge has special characteristic that it is very difficult to gain but very difficult to acquire. Technology is special kind of knowledge which distinguished it from other kind of knowledge. Knowledge capital and technology very important for MNEs it provides link between FDI and economic growth. (theory further explained in the Appendix)

2.4 Introduction to Pakistan

In order to understand where Pakistan is today and why, we should have a quick look at its history.

Islamabad is the Capital of Pakistan. The population of Pakistan is approximately 180,808,000 in 2010. It is the sixth most populous country in the world and has the second

largest Muslim population after Indonesia. Total area of Pakistan is 803,940 sq km (infoplease, 2008 online). Pakistan is situated Southern Asia, bordering Afghanistan 2,430 km, China 523 km, India 2,912 km and Iran 909 km. Ethnic of Pakistan is Punjabi, Sindhi, Pashtun, Baloch and Muhajir. There are 97% Muslims (Sunni 77%, Shia 20), Christian, Hindu, Sikh and other is 3%. The officially language of Pakistan is Urdu. Mostly English is spoken instead of Urdu. Other languages which are spoken in Pakistan is Punjabi, Sindhi, Pashtu, Siraiki, Balochi, Hindko, Brahui, Burushaski, Balti, Khawar, Gujrati and some others languages with smaller numbers of speakers. (“Group,” 2005 online)

With a semi-industrialized economy, in term of purchasing power Pakistan is the 27th largest in the world. Its history has been characterised by periods of military rule, political instability and conflicts with neighbouring India. The country continues to face problems of poverty, illiteracy and corruption. Pakistan has the seventh largest armed force and is the only Muslim-majority nation to possess nuclear weapons. ("Group," 2005 online)



Fig: 2.1 Source: Infoplease (2008)

For business meeting 3 to 4 week advance appointment is necessary, but for private companies meeting is not necessary. But it is possible to cancel a meeting any time in the last minutes or even when the person arrived. Mostly companies in Pakistan are hierarchical in decisions, which are made by the highest ranking person. For the accomplishment of a simple task the person has to visit several times because the society is highly bureaucratic. Pakistanis are very skilled and emotional negotiators but do not try to pressurise others through their tactics. When they are speaking keep indirect eye contact and try for positive outcome of the negotiation. (“Group,” 2005 online) (More about Pakistan has been explained in the appendix)

2.4.1 Economy overview of Pakistan

Pakistan is underdeveloped country, has suffered from decades of internal political disputes, security problems and low levels of foreign investment. However from 2001 to 07, poverty levels decreased by 10%, gross domestic products (GDP) growth in the industrial and service sectors was 5-8% instead electricity shortfalls, in 2008 and 2009, growth rate slow down and unemployment rose. In 2008 inflation increased from 7.7% in 2007 to 20.3%, and 14.2% in 2009. Since 2007, the Pakistani rupee has depreciated. In response to a balance of payments crisis, the Government did an agreement with an International Monetary Fund (IMF) in November 2008, but Pakistan current account and foreign exchange stabilized in order to money sent from abroad by Pakistanis workers and decreased the prices of oil. To earn foreign investment, export textiles are on top. Pakistan has the challenges like expanding investment in education, healthcare, and electricity production, and reducing dependence on foreign donors. GDP in purchasing power parity in US dollars was in 2009, \$432.9 billion, \$415 billion in 2008, \$400.6 billion was in 2007 and GDP official exchange rate in 2009, was \$162 billion. The real growth rate in 2009, was 4.6%, 3.6% in 2008 and 1.6% in 2007. GDP per capita in US dollars was \$2,400 in 2009, \$2,300 in 2008 and in 2007 was \$2,300. (“Factbook”, 2010 online)

GDP distribution by sector in 2009 was agriculture 21.6%, industry, 24.3% and services 54.2% and 24% of population were below poverty line. Labour force was 53.78 million in 2009 in which mostly are working in Middle East. Unemployment rate was 14% in 2009 and 12.6% in 2008. Total revenue was \$22.65 billion and the expenditures \$30.98 billion in 2009. Public debt of GDP was 49.3% in 2009 and 53.7% in 2008. (“Factbook”, 2010 online)

The big Industries in Pakistan are textiles, food processing, pharmaceuticals, construction materials, paper products, fertilizer and shrimp in which the growth rate was -1.9% and oil production was 59,140 bbl/day and consumption 373,000 bbl/day in 2009. In 2008 Natural gas production and consumption was 37.5 billion. In 2009 and 2008 export was \$18.33 billion and \$21.21 billion. Pakistan export textiles (garments, bed linen, cotton cloth, and yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs. Export partners of Pakistan in 2009 was US 15.87%, UAE 12.35%, Afghanistan 8.48%, UK 4.7%, China 4.44%. Pakistan import was \$28.53 billion and \$38.22 billion in 2009 and 2008 simultaneously and the import commodities petroleum and their products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron, steel and tea. Import partner of Pakistan was in 2009 China 15.35%, Saudi Arabia 10.54%, UAE 9.8%, US 4.81%, Kuwait 4.73%, Malaysia 4.43%, India 4.02%. (“Factbook”, 2010 online)

According to Arslan, (2010), Pakistan’s FDI fell by 44.7% in the year 2009-2010, compared with 2008 (Arslan, 2010). According to the State Bank of Pakistan (SBP) FDI has for July-April (2009-2010), indicating \$1.72 billion as was \$3.20 billion for 2008. The documents show that FDI in Pakistan was 3.52 billion in 2005- 2006. In 2008 and 2009, in order to decline in economic growth and attack from terrorism, its FDI level fell to \$3.72 billion. As terror attacks increased, investment continued to drop, to \$1.72 billion in 2009-2010. The United States was the top investor in Pakistan with \$490m. The second was Netherlands, with \$269.2m; Britain, \$214m; UAE, \$182m; Switzerland, \$126m; Singapore, \$93.5m; Cayman Islands, \$69.2m; and the rest of the countries were, \$328m.

Moreover Arslan, (2010), explained the most attractive sector for investment was the oil and gas with, \$604.7m. Other top industries receiving significant FDI telecommunications, \$309.8m; finance, \$133m; transportation, \$104.2m; paper and pulp, \$80.5m; construction, \$86.3m; chemicals, \$79.1m; and others, \$375m. The documents blamed bad planning and government policies for FDI shirking. It was also stated that worsening security problem and law and order situation is responsible for low level of FDI. “FDI cannot be encouraged in a worsening law-and-order situation”

2.4.2 Importance of Foreign Direct Investment in Pakistan

In the journal “foreign direct investment in Pakistan” by Khan et al (1999), that Asian currency crisis in 1997 created many challenges for developing countries in Asia. Pakistan

was one of them, there was limited liquidity. The size of the market was small; foreign exchange was \$1.3 Billion which was enough for import of goods only 4-5 weeks. In 1990 the short term debt increased from 12% of total to 20%.

The researcher agrees with Khan *et al.* (1999), FDI has a positive effect on economic growth in Pakistan because in 1998 during nuclear testing foreign exchange fell to 400-500 which were partially recovered by G-7 sanctions and IMF assistance programs. FDI would increase productivity, create economies of scale and linkage effects. In FDI the investors reinvest the profits which build confidence for the foreign investors and local firms which increase trade and production.

Khan *et al.* (1999) said that FDI targets the newly industrialized economies like in Asia (NIEs) (Hong Kong, China; Korea; Singapore; and Taipei, China) was targeted and thereafter moved to ASEAN countries. Recently FDI is moving to China, India, and Viet Nam. This changing direction of FDI flows suggests that there is a positive interlink between Asia and Pacific region of confidence building, FDI inflows and growth of economy. Inflow of FDI is very small into Pakistan mostly in power sector. Pakistan accounted for the world FDI, 0.2% less than one percent of developing country and Asian country FDI, and 18% of South Asian countries in 1997. Instead of liberalization and the government looking for inward FDI Pakistan has been failed to attracting FDI.

According to Khan *et al* (1999), the main reasons for failure FDI, is inflow into the power sectors since 1995 has created some negative effects in which the imports of capital goods and conflict between the government and foreign independent power producers (IPPs) in which the government need to pay to IPPs according to the agreement. Another negative effect of FDI was not to reinvest the profit by IPPs which decrease exports of goods and services.

2.4.3 Pakistan's FDI Policy

Host countries' Policy effects the decision for foreign direct investment. Pakistani economy is in agriculture economy. Pakistan industrial capacity was very little to produced agricultural raw material locally. For increase the capacity of industrial raw material the government is changing always the industrial policies in which focussed on either the private or the public sectors. In the 1960s, government policies were focussed on to encourage the private sector

while this aimed change to public sectors during the 1970s. The government of Pakistan made market oriented policies and declared the private sectors the engine of the economy growth in the 1980s and 1990s. Meantime the government of Pakistan made a great offer to foreign investors. (Khan et al 1999)

Khan et al (1999) explained that, in 1990s the government of Pakistan decided that the rules and regulation for FDI will be the same as for the local investors, except a few industries the approval for foreign investors by the government was removed. The investors were allowed to purchase any equity in the industries which were already existed. Before for all investors No Objection Certificate (NOC) were required from the provisional government for the project location while now only NOC is required from the foreign investors in those areas which are in negative list of the provincial government. The investors were not allowed to negotiate terms and condition with the government for transferring technology and other requirements in the past, while in present the investors can discussed every issue without any hesitation. Now days the free foreign currency exchange, like bring in, possess and bring out foreign currency and to open account is allowed for foreigner and local investors and for residents and non residents Pakistanis. The concession has been given by the government in between 1990 and 1995 who set business in remote rural area of special custom duty and sales tax. In 1986/87 the tariff rate was 225% which was reduced 1996/97 to 45% and some restriction about quantity and non tariff problems has been removed.

2.4.4 Factors Influencing the Flow of FDI in Pakistan

Khan et al (1999) discussed, Pakistan encouraged foreign investor particularly after the 1991/92 liberalization program by the government. They encouraged the investors through 100% foreign ownership of capital, operate the company without register with the local stock exchanges, no limits to sent money to their home country, allowing to withdraw their investment at any time. Besides these encouragements, Pakistan is a high populated country with 180 million people which offers for marketing potential for consumers and durable goods. Apart from these Pakistan has a favourable geographical location but still failed to attract inward FDI like other developing countries for example Hongkong, China, Malaysia and Thailand. The most visible factors which prevent the foreign investors to invest in Pakistan is political instability, law and order, economic weaknesses, poor government economic policies, government bureaucracy, unfavourable local business environment, big

gap between policies and their implantation, very poor infrastructure facilities, unsympathetic attitude toward foreign investors, culture and social barriers and lack of technically trained and educated labours.

2.4.5 Economic Effects of FDI on Pakistan;

Khan et al (1999) explained, FDI has positive effect on economic growth of the host country overall but the growth rate is depend on the human and natural resources of the host country. In Pakistan the FDI inflow is not giving a high percentage of GDP which was less than one percent but rose to 1.69 percent in 1995/96 in order to FDI in power sector. In Pakistan the FDI has a great effect on the import substitute industries and the productions for the domestic markets. FDI increases import then export which make the country trade unbalance which has worsened for the country economy. Why import increase in order to FDI in Pakistan, because MNCs import intermediate inputs, capital goods and services which are not available in Pakistan. Some research suggests that FDI has negative effect on import because the products and services which were imported now produced in Pakistan.

2.4.6 Motives to invest in Pakistan

According to BOI (2009) there are five key reasons to invest in Pakistan in which the first one is Geographical and strategic Location. Pakistan is situated in the middle of Asia and beside of Arab sea, which is the gate way for all other countries like Central Asian States, Gulf countries and Far Eastern Tigers. The trade is very easy through Pakistan in other countries of Asia and the rest of the world. The second key reason to invest in Pakistan is the trained work force of Pakistan. They are hardworking, intelligent and fluent in English. There are a lot of professional people like doctors, engineers, bankers, lawyers etc. The third reason for invest in Pakistan is Economic outlook. In 2005 Pakistan GDP growth was 8.4% which was one of the fastest growing economies in the world. FDI has increase from \$300 million in the 1990s to \$3.7 billion in 2008-09. Consumers of Pakistan are more than 170 million. Foreign Exchange (FOREX) rose from \$3.22 billion in 2000-01 to \$11.6 billion in June 2009. The fourth key reason for investment in Pakistan is the Investment Policies which already mentioned are liberalization, deregulation, privatisation and facilitation. The last factor is financial market which is modernized and development reform improved the infrastructure of the stock exchange of Pakistan. While they improved regularity environment of the stock exchanges, bond market and leasing sector and facilitated the tax and tariffs of the country.

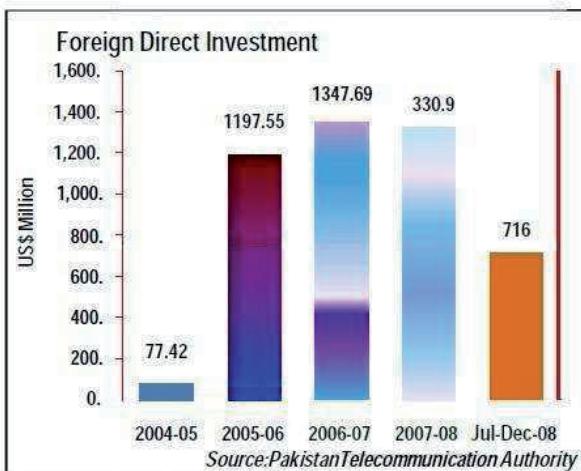


Fig: 2.2 Source: www.ipbts.com

2.4.7 Barriers to FDI in Pakistan

The barriers to foreign investment in Pakistan are very clear from the literature review. Different sources (academic articles investors' surveys, investment reports) cite the same type of problems as barriers to investment, problems of an institutional or legislative nature, bureaucracy, corruption, poor operation of customs, tax legislation, poor work of courts, corporate governance, insufficient protections property rights, poor functioning banking system, problems with infrastructure, lack of International Accounting Standard (IAS) etc all are cited as obstacles to increased investment. In order to simplify the analysis of investment barriers and to make it clear, the researcher will form them in five groups. Some problems that are not the key barriers will not be included in the review. Thus, the top barriers to investment (extracted from the literature review by the author) are; pervasive corruption, excessive bureaucracy, insufficient and inconsistent judicial and legal reform and weak corporate governance.

a. Corruption:

High level of corruption has been an especially important factor behind Pakistan's low level of FDI. Foreign companies are very apprehensive about the Pakistan market because of corrupt environment and they often believed that local companies may use corruption to shut foreign competitors out. Here is the opinion of one of the foreign investors who is dealing with Pakistan for a number of years "bribes have increasingly become a necessity, neither to win contracts or to keep inspectors and prospectors and prosecutors at bay"



Fig: 2.3 Source (Baloch, 2/02/2011)

The above report of the Transparency International Pakistan (TIP) disclosed an increase of corruption in Pakistan, in which Pakistan position is 42 in the corrupt country in the world in 2009 which was 47 in 2008. According to Imran Khan Chairman of Pakistan Tehrik e Insaaf (PTI) that corruption lead to poverty and poverty lead to terrorism in Pakistan. In order to this Pakistan lost credibility all over the world. According to him, in order to corruption, Pakistan is facing serious problems of economic down fall, poverty, inflation, electricity and food shortage. (Baloch, 2/02/2011)

b. Government Bureaucracy

Pakistan bureaucracy has also proven to be a significant challenge for businessman to invest their money to Pakistan. as the literature cites bureaucracy is one of the to p reasons for investors desicion not to deal with Pakistan. (Shafqat, 1999)

Bureaucracy is the top most corrupt institution in Pakistan. According to a survey that 40% of the bureaucrat of Pakistan is corrupt. According to a survey that if you have to solve a genuine problem you have to pay bribe to bureaucrat or their family. (Corrupt bureaucracy, 11/02/2011)

According to Shafqat, (1999) among foreign investors bureaucracy is a high additional unnecessary cost that always must be taken into account by investors. License, permits, business visas, work permits and other regularity approvals for businesses, daily activities are mired in red tape. Government inefficiencies cost business both domestic and foreign time, money and lots opportunities. (This topic is further explained in appendix)

c. Slow Legal and Judicial Reforms

apparently the issue of Legal and Judicial reform in Pakistan, the process has been going very slowly until now, is becoming pivotal and foreign investors want to see real progress in this area. If Pakistan want to attract foreign investors must have to reform the legal and judicial system because without it corruption will not be decreased. Thus, the international Community must see reason, reforms and the government output in new policies in order to deal with Pakistan in its full capacity. (Penh and Moresby 2006) (for more details see appendix)

d. Weak corporate Governance

The weak corporate governance is one of the key barriers to invest in Pakistan. The quality of corporate governance that exists in the country is still very poor. Here is the corroboration of the fact. According to a survey that the majority of foreign investors described poor corporate governance including inadequate shareholders' rights protection and limited disclosure was mentioned is the main factors that affect negatively Pakistani business. Mostly investor describes that corporate governance as not favourable. It would be possible to mention other example here but the author thinks it is enough to prove that corporate governance represent a problem for foreign investors. Thus, there is a lot should be done to eliminate this barrier to investment. (Joseph et al, 2010) (the remaining of this topic is explained in appendix)

e. Insufficient Promotion of FDI and weak government support of foreign investors

In general government policies is not oriented to attracting FDI to Pakistan. Incentives offered to foreign investors by federal and regional Government include some tax and customs exemptions, and are provided only in case if investment projects meet the country's strategic requirements and targets. This is not enough to compete with other market of FDI. ("investment climate in Pakistan," 2010 online)

Pakistan investment climate is concern for the foreign investors especially communication and coordination between foreign investors and Pakistani government. Another problem which exists in Pakistanis is lack of any support of investment agencies. They lack the commercial skills, security problems and focus to compete for mobile or contestable FDI with Europe or Asia, which have experienced investment agencies. ("investment climate in Pakistan," 2010 online)

According to Samad, (2010), taxation, infrastructure, intellectual property rights, and crime are the main barrier to invest in Pakistan. The research showed that some of them represent problems to increased investment but they are not crucial for a decision not to invest. Like crime is mostly social problem then business cost and it does not really affect foreign investors. Taxation is the main advantage than other developing countries but during the taxation corruption is main problem in it which corrupt bureaucrats create for investors. (For more details see appendix)

It would be great to analysis Pakistan and its investment climate potential by a SWOT analysis. It is based on the research finding and, basically it summarise strength, weaknesses, opportunities and threats of Pakistan as an investment destination. It is useful instrument as it gives a general idea about the investment climate from a quick look.

Strengths	Weaknesses
<i>Domestic market growth potential</i>	<i>Bureaucracy</i>
<i>Market size</i>	<i>Corruption</i>
<i>Availability of natural resources</i>	<i>Regulatory obstacles to business</i>
<i>Educated, skilled, motivated workforce</i>	<i>Weak corporate governance</i> <i>Lack of Government policy, transparency</i> <i>Weak FDI promotion</i> <i>Security problems</i>
Opportunities	Threats
<i>Economic growth</i>	<i>Political instability</i>
<i>Macroeconomic stability</i>	<i>Poor image</i>
<i>Low cost advantage</i>	<i>Over dependence on natural resource</i>
<i>Good relation with Islamic Countries</i>	<i>Macroeconomic instability</i> <i>No progress on legislation, regulation and terrorism</i>

Table 2.1 SWOT analysis of Pakistani business climate

In conclusion the author would like to point that there are some great opportunities existing in Pakistan for foreign capital, however they are hidden behind a mountain of challenges and direct all its efforts to solve all those problems and let investors see that incredible investment potential. All the recommendations on how Pakistan reduces the barriers, to invest and increase the volume of its inward FDI, Will be given in the recommendations chapter.

2.5 Key factors of Success in attracting FDI of top recipients.

In this section the researcher will identify the KSFs in attracting FDI of the top recipients in the world; the USA, the UK, China and Ireland. It is essential to do in order to develop the objective view of key factors that determine countries' investment success. Basically fundamental common key factors that are valued by most investors and are crucially important for any country in order to attract investment will be identified. The way the researcher analysis them is, take the experience of top recipients of FDI and analyses the reasons of their success. Then identified what factors are common for FDI success across these countries. These common factors will be important basis for FDI attraction in any country. On the basis of finding recommendations will be made to Pakistan on what KSFs it should develop in order to increase the volume of its inward FDI.

This choice of countries is base on a very simple principle: picking them to recipients of FDI. The USA and the UK are two developed countries that are traditionally attraction the highest amounts of FDI. China has been the biggest recipients of inward FDI for a numbers of years. Ireland used to attract an incredibly high volume of FDI for an economy of that size. These countries will be explained one by one.

2.5.1 Ireland

Ireland is taken in this analyses as a top recipient of FDI (even it is no longer at the top). But the research will be discussed about how Ireland got the top position in the inward FDI. The reason for this Ireland received huge amounts of FDI for the shortest number of years and became the "Celtic Tiger" a growth record that matched East Asia's economic growth of 80% in real terms over the past decade. ("The luck of the Irish", 2004 online)

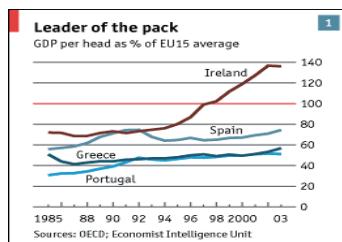


Fig: 2.4 Source: www.economist.com

Ireland and FDI is a unique case which was the subject of many different analyses and researches.

Some new research members of the EU and transition economies still try to copy “the Irish Model success” in attracting FDI. However, the researcher believed that it is hardly possible to follow as every country is unique in the sense of outgoing political, economic, social and technological processes. Thus, only some factors can be applied in every country or industry with regards to the particular conditions and circumstances but not the entire model. The factors that Ireland has implemented and developed to promote it and to attract FDI might be a useful example of how Pakistan can increase its low volume of FDI.

a. Low tax and generous investment incentives

One of the main drives for foreign investors to bring their capital to Ireland is the low tax environment. Ireland offers one of the most beneficial corporate tax environments in the world. A 12.5% tax rate on corporate trading income applies from the 1st of January 2003(which is far below the EU average of 30%). (McCaffrey, 2002, p24) The possible future threat can rise as have known that Ireland increased the tax rate from 1st of January 2011. (For further detail see appendix)

b. Availability of young, educated and productive labour:

The quality and availability of Irish work force was one of the county’s greatest competitive advantages in attracting inward FDI during the beginning of its fast development. (“The luck of the Irish”, 2004, online). Ireland has a very unique work force young and well educated. Ireland has the youngest population in Europe with over 40% under the age of 25years. In addition, the quality of Ireland’s education is exceptionally high. The independent IMD work competitive Report ranks Ireland as one of the best in Europe for the quality of education, which every one receives. Six out of every 10 of Ireland’s third level students major in engineering, science or business studies. Irish government recognizes and it is trying to sustain it by further investing in education. Government strategy to increase highest level research talent from Ireland and abroad and will be double the number of PhDs by 2013. (“IDA”, 2011)

**Table: 2.2. The Educational System in Ireland meets the needs of a competitive economy
(country score)**

Ireland	6.62
France	6.38
USA	5.66
UK	5.56
Spain	3.90

Source: www.idaireland.com (2010)

Ireland there is strong work ethos and an enthusiasm for “getting things done”. This is reflected in the rate of employee turnover which is well below the European average. (Gopinath, 2005, p25). It means that employers enjoy greater commitment from their workforces, have higher proportions of appropriately experienced personnel and incur low annual training costs. (“IDA”, 2011)

**Table: 2.3. Flexibility and Adaptability of workforce when faced with new challenges
(Countries score)**

Ireland	7.38
USA	7.10
Netherlands	6.88
UK	6.11
Czech Republic	5.64
Germany	5.45

Japan	5.45
Portugal	5.14
Spain	4.80
France	4.33
Hungary	3.89

Source: www.idaireland.com

Moreover the above table shows that Ireland has the highest score in quality of flexibility and adoptability, which is the country's greatest advantage to attract foreign investors. (This topic is further explained in appendix)

Therefore, the quality of Ireland's educational system, the availability and flexibility of young work force, low rate and higher labour productivities resulted in delivering real competitive advantage to business in Ireland. All these factors resulted in Ireland attracting a high number of international companies in the country. ("IDA", 2011)

a. Strong Government Support of foreign investors:

Enterprise Ireland is a government institute that is responsible for the development of Irish Industry. Its mission is to work in partnership with client companies to help them build a competitive advantage in the global market place. (www.enterprise-ireland.com)

Its network including offices in Ireland and 33 international offices helps its clients to explore more export business opportunities by introducing them to key industry players and decision makers. They work together with the domestic and international companies, introducing them to relevant potential partners, suppliers and buyers. By doing so, "Enterprise Ireland" promotes the country to foreign investors as a potential FDI destination and also informs them of Irish opportunities and communicates with foreign investors. ("IDA", 2011)

The Irish Industrial Development Agency (IDA) is also an Irish government agency, which ensures that overseas companies establishing or expanding their operations in Ireland receive the best advice and assistance ("IDA", 2011). Ireland offers such investors a high competitive package of investment supports. IDA Ireland provides its services dedicated teams of industry

specialists in 14 offices worldwide. (Enterprise Ireland, 2009). IDA Ireland coordinated all the services and supports needed to ensure that the start up or expansion of the foreign companies are without trouble. For this purpose, and in order to anticipate and meet its client needs, efficient experience and professional “one stop shop” has established. (IDA, 2009)

Both Enterprise Ireland’ and IDA’s promotion and data sharing activities have helped Irish companies to establish relations with foreign investors and contributed to promote Ireland overseas. Moreover, these agencies supplied Ireland’s policy makers with valuable data in order to shape the environment in accordance with the requirements of the foreign investors and consequently, to improve overall the country’s investment climate. (IDA, 2009)

Thus, the example of Ireland indicates that government authorities in order to increase should do the best job they can in informing and communicating with foreign investors in order to increase the volume of its inward FDI.

b. Developed Infrastructure

Ireland has one of the most advanced and competitive Telecommunication infrastructure in Europe. The large amount of investment in recent years has resulted in state of the art optical networks. Ireland’s sophisticated telecommunications system enables companies to achieve economies by centralising their Europe administration in Ireland, link design and development engineers, scientist and other R&D personnel across the globe for conferencing and real time development activities, provide marketing and customer support by telephone throughout Europe from a single call centre. In addition, the telecommunications market is fully de-regulated and currently over 20 companies compete on the basis of value added services. (IDA, 2010) (for more detail see appendix)

On top of the discussion factors there is political and economic stability, the English language (as international language) and the stability of euro currency, culture (close and understandable for European investors) were the factors which attract the foreign investors.

The undertaken analysis of KSF in Ireland indicated some kind of an investment paradox. Ireland has some significant competitive advantages that are valued by foreign investors but at the same time Ireland is far from being perfect. As the analysis shows nearly every advantage has its downside that, theoretically, can put off foreign investors. However they are not. It means that a few really strong advantages in investment climate are enough to compete

successfully on internationally for foreign capital. Moreover, these advantages factors are quite strong investors tend to ignore other existing disadvantages. Thus, Pakistan can learn from the case of Ireland that is enough to concentrate and develop a few weightily advantages and reduce obvious risks in order to succeed.

Anyway now a day Ireland is not attracting FDI as was before because the economy is shrinking as we see in the below figure.



Figure: 2.5 Source: www.economist.com

2.5.2 United Kingdom

In the analysis of KSFs in attracting FDI, UK cannot be ignored. It has been competing very aggressively on the international market for foreign capital for the (as downfall of the economy came during 2008/2009 recession) and has been counted one of the top recipients of FDI in the investment report and reviews. UK is considered as one of the most favoured inward investments location in Europe, attracting about a quarter of all direct investment in the EU. According to UNCTAD investment brief (2006), about 40% of US, Japanese and Asian investment into the EU goes to the UK, which is the home to more leading global corporations than any other EU nation. Moreover, in 2005 the UK managed to attract massive capital inflows of \$219 billion that represents the highest figure ever recorded for a European country. Thus, the evidence of the UK could probably be useful in solving the problem of poor volume of FDI in Pakistan.

a. Long term stability: economic and political and regulator.

Stability, in general, is quite a common indicator of a favourable investment climate in many developed countries. For this reason it should not be identified as a crucially important factor in attracting FDI in any country. However, the author feels that an exception should be made regarding the UK. These factors make this country particularly attractive for foreign investors. The economy of the UK is one of the strongest in Europe. Inflation, interest rates and unemployment remain low, (Drifford 2004) even some rises seen in the inflation of UK in the below figure;

Figure: 2.5 Inflation in UK CPI inflation 3.7%, RPI 4.8%



Source: www.statistics.gov.uk

The currency of the UK is very strong and in general the country's economic performance is very good. Moreover the government is improving education, transport and health services; it affects the overall image of the country. The economic survey of the EU (2004 BSP Database) indicated that "countries such as the UK are likely to attract less FDI in the future and could even experience some disinvestment, particularly in export-oriented manufacturing sectors such as automotive industry, if they remain outside the Euro area"

UK is considered to be in the political aspect as well. Investors see the current government of David Cameron and as was before that inherited a legacy of economic reforms, including privatisation, deregulation and support of competition (Travers, 17/08/2010)

According to UK investment overview (2006) the investors see a high degree of consistency of the Regulatory in the UK. Trading rules accounting standards and audit provisions are well regulated. All fact of high quality governance is promoted very well by the government agencies and it plays a significant role in attracting FDI.

a. A highly skilled, flexible, English speaking work force

As the UK cannot match the low labour costs of India and Chines competitors, it puts all its emphasis on developing and increasing a skilled and motivated workforce committed to developing high value added products and services. This is the niche where the UK is competing for FDI high value added investment. According to HSMP, (2003) “the UK has 29.6 million skilled and adaptable workers and high standards of education with a strong emphasis on vocational education and training” the Leith review of skills (*the times 29th Nov 2005*) that there are still too many people with a low level of skill in the country.

Driffield (2004) explained Labour Market regulations in the UK including working hours are considered to be among the most flexible in Europe. In addition to this the UK has a strong science and technology base with world class design, research and development disciplines. Many UK universities and scientific institutes are taking part in collaborative research projects with business. The workforce in the UK is English speaking. The fact of conducting business in English simple for every investor as it is the most common language in the world and it usually does not create barriers in communications.

b. High quality Corporate Governance

The quality of Corporate Governance in the UK is considered by the investors as very high. Corporate governance in the UK is the highest among 23 nations in the survey (2005) by International Government Rating Agencies (IGRA).

The fact of high quality governance is promoted very well by the government agencies and it plays a significant role in attracting FDI.

c. Advanced Telecommunication Infrastructure;

The telecommunication infrastructure has been one of the major drivers in attracting FDI into the UK. The telecommunication has played the same role and performance in the UK as was mentioned for the Ireland. Therefore, it will be great to move to further topic.

2.5.3 China:

As repeated surveys and actual FDI inflows bear out, China remains the top destination for foreign investors. Here is analysis of KSFs that made China a top destination of FDI.

a. Inexpensive Labour Force

Inexpensive labour force is one of the strongest competitive advantages of China.

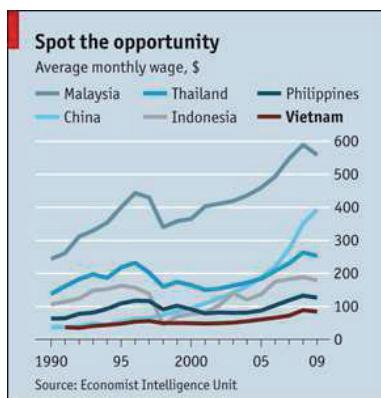


Fig 2.5 Source: www.globotrends.pbworks.com

As was seen in the above figure, china has still low wages than other developing countries. In 2004, the average monthly salary was 30- 97\$, depending on the sector and location. (Palmade & Anayiotas, 2004). The availability of professional and low cost labour is one of the main factors to attract FDI into china.

b. Rapidly growing economy and huge potential market

Mostly investors are agreeing that cheap labour as the main reason to invest in China. According to OECD, economic survey of china (2005) the rapidly growing economy in terms of production and consumption, attract the foreign investors. According to Barson (2006 p68), “economic growth has averaged 9.5% over the past two decades and seems likely to continue at that pace for some time. National income has been double every eight month. Per

capita income is growing rapidly and steadily and people consumption is growing as well and that create a new market". Thus, the investors are looking for the internal Chines Markets and not export. Another factor, which attracts the investors, is significant tax exemption and deduction.

2.5.4 The United State of America

- a. The factors which attract the investors into US is the following
- b. Large domestic market potential and proximity to customers
- c. Educated and skilled workforce
- d. Great promotion and strong government support of foreign investors
- e. Developed infrastructure and logistics

2.6 Lesson learnt from the above KSFs of attracting FDI from the Top recipients in world

Thus, it has been analysed that KSFs in attracting FDI of a number of countries leaders in the world. It was essential to do in order to develop the objective view of key factors that determine countries, investment success. Primarily it was tried to identify those important common factors that are valued by investors and are crucially relevant for any country in order to attract investment. The factors listed below are basic factors that are important for the investment attraction.

Skilled or inexpensive labour force (or productivity)

Developed infrastructure

Government support of foreign investors

Generous investment incentives (tax or non tax)

Market potentials or market growth

Now knowing what factors a country should have in order to attract investment successfully the author can make recommendations to Pakistan so it can increase volume of its inward FDI. All recommendations regarding development of fundamental and unique KSFs will be

given in the section “conclusion derived from the literature review and in the recommendation Chapter”.

2.7 Conclusion derived from the literature review:

At this stage of the research the following points has been identified. Overall FDI has a positive result on the country economy. Barriers and obstacle to FDI in Pakistan make Pakistan an unattractive destination for FDI. Therefore, it cannot increase the volume of its FDI. Fundamental KSFs those are essential to have for any country in order to compete for FDI successfully. Theoretically Pakistan should reduce identify barriers to investment, plus implement and develop those KSFs that determine high investment volume in the top recipients of FDI.

2.7.1 Recommendations based on the identified problems of Pakistan investment climate (Pakistan should take the following steps)

Pakistan should overcome on security problems, fight against corruption and streamline Government Bureaucracy, Enact real, judicial and legal reform, Improve the quality of corporate governance, Promote Pakistan as a foreign investor destination and last Pakistan should develop and implement fundamental KSFs that determined investment success in any country. (KSFs are based on experience of top FDI recipients)

Chapter: 3 Research Methodology and Methods

Primary Research is very essential in order to figure out all the research objectives. The aim of the Methodology here is to illustrate research's chosen methods of research in order to conduct the Primary Research. It provides necessary justification for selecting the particular method of research and as well endow with validation of the same in terms of its features and limitations.

The research divided this chapter into three sections. The first sections is the design of research process, the second section is the Research Philosophy, Research approach, Research Strategy, Research Time Horizon. The third section describes data types, data collection methods and population and sampling methods.

3.2. Design research Process

According to Saunders et al (2007), the researcher must have an idea of what he/she wants to do, before starting whit the research. Without having an idea on the above, it is difficult to decide how he/she is going to proceed with the research. Moreover from the literature review, research came across several issues that required further investigation and research. On this basis, researcher feels the necessity to have an initial brief discussion on the research problem, thesis statement, question, objectives, and hypotheses before proceeding any further with research.

3.2.1. Research Topic

According to Kumar (2005) the formulation of research topic is like identification of destination as before starting a journey. Saunders et al (2007) states that a researcher needs to spend sufficient time on the clarification and formulation of a research topic. The research topic in the present research is:

“Volume of inward Foreign Direct Investment in Pakistan”

3.2.2. Research Question

According to Teresa and William (1997) research question relates to an existing practical business problem or a theoretical puzzle which requires conceptual clarity for developing a theory. Moreover Saunders et al (2007) state a successful research needs clear conclusions

drawn from the data that has been collected. Considering the above criteria the researcher drives the following research question.

How can the Government of Pakistan Increase its Volume of Inward Foreign Direct Investment?

3.2.3. Research Objectives

Identification of a research problem is the starting point of a research. When these questions are provided with valuable pointers or objectives, the research can be treated as a good research. “Problems invariably raise questions, and questions beg for answers. It is the search for answers that you will discover, and be able to formulate, the objectives of the research”; (Williman, 2005: p 234)

From the literature review, the researcher came across various issues which related to the research question that need further clarification and research.

The main objective of the studies is,

To identify the real way of how Pakistan can increase the volume of its inward FDI

And through this objective researcher will identify the internal problems of the investment climate which restrict the increased FDI inflow to Pakistan and will identify the KSFs for attracting of FDI top recipients in the world in Pakistan and make recommendation that what steps should be taken by Pakistan with regard to the experience of other developed countries

Through this objective researcher will assess of the country investment risks and opportunities and do analysis of the KSFs of top recipients on attracting FDI, the researcher can get the whole idea and can provide full suggestion on how can Pakistan increase the volume of its inward FDI.

3.2.4. Research hypothesis

According to Collis and Hussey (2003: p 125), hypothesis can be a statement about the relationship between the independent variable and dependent variable.

According to Williman (2005; p211), the foundation of a “hypothetical-deductive” approach is the hypothesis. According to him they are “reasonable guesses made in the form of statements about a case or situation”. A good hypothesis has to rise naturally from the

research question. It can support or reject a particular action. The most important factor in the development of a hypothesis in one's own research is that, it should be reasonable and sound for an external reader, (Williman; 2005).

3.2.5. Important qualities of hypothesis

Important qualities of a good hypothesis are assertions (not suggestions), limited in scope, it will statement about the relationships between certain variables and Contain clear implications for testing the relationships, they will be compatible with Are limited in scope and Are compatible with current knowledge. Hypothesis is statements about the relationships between certain variables and expressed as economically as possible using correct terminology. (Williman, 2005; p212).

Keeping the above valuable points as reference the researcher formulates hypotheses in this study, as follows:

H1: The disadvantages of Pakistan investment climate restrict the increased volume of FDI to Pakstan.

H2: The adoption and development of key success factors (KSFs) in attrcting FDI of top recipients in the world in Pakistan (best practices) will create new investment opportunities for foreign capital.

Researcher whole focus will be to prove the above two hypothesis.

3.2.6. Research Methodology

The aim of the methodology here is to illustrate researcher's chosen method of research in order to conduct the primary research. It provides necessary justification for selecting the particular method of research and as well endow with validation of the same in terms of its features and limitations.

A research design provides that how we go to answer the research question. Research design is like glue that holds the research project together. (Trochim, 2006)

According to Teresa and willliam (1997), research metodology is a system of decisions. Each decision taken has an effect on the other decisins taken later. They argue that research questin is the most important decision and it drives the rest of decision process. "The research process provides a systematic planned approach to a research project and ensures all aspects of the project are consistent with one another", (Terwsa and William, 1997; p3)

Saunder et al (2007) stated that the research design is an overall plan that shows how they go about in answering their research question. They also mentioned that “ the importance of clearly defining the research question cannot be overemphasized” (Saunders et al 2007 p131). They argue that research design must contain clear objectives, those are derived from the research question, the sources he/she intend to collect the data from, and the constraints faced while obtaining the same. Hence the researcher must have a valid reason for all the decisions. These decisions need to be justified in terms of the research question and objectives. (Saunders et al 2007).

3.1 Research Onion

Researcher at this stage finds the research onion suggest in Saunder et al (2007), appropriate in the research. “Here the research methodology starts from the outer layer of the Research Onion and layer by layer moves towards the main data collection and data analysis as shown below” (Saunders et al. 2007, p 132).

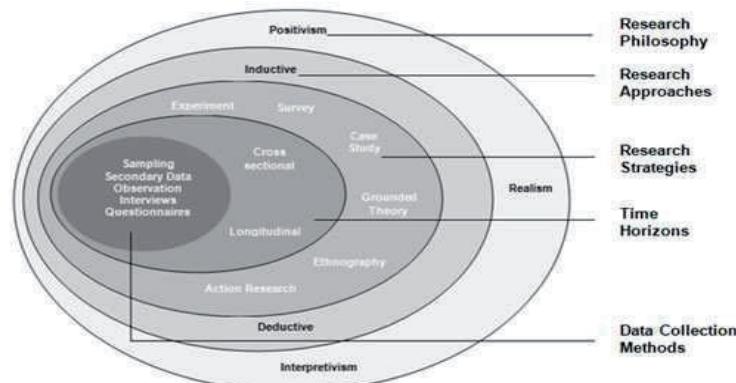


Figure 2
Research Process 'Onion'
Saunders et al., (2003)

3.3. Research Onion

Saunders et al (2009) compare the different layers of the research process as being like the layers of an onion. The first layer is the research philosophy. The second layer considers the subject of the research approach that flows from that research philosophy. The third layer raises the questions of the research strategy and the fourth layer is the time horizons apply to the research. The fifth layer is about how to collect data. (Saunders et al, 2009)

3.3.1. Research Philosophy

The first layer of the Saunders et al (2003) research onion is research philosophy. “Philosophy is worked by making arguments explicit”, (Williman, 2005; p188). For critically evaluating a research, sensitivity towards the philosophical issues is needed. In a good research one has to adopt his/her philosophical view point while carrying out the studies. (Williman, 2005)

According to Saunders et al (2007) there are three approaches in research philosophy, they are epistemology, ontology, and axiology. All of the above approaches are different according to the thought process of the researcher. Among the above three, epistemology constitutes with the acceptable knowledge in the field of study. Positivism, interpretative and realism are the three main types of research philosophy (Saunders et al 2003). Each of these philosophies provides a unique guideline on the way knowledge is developed. It is important for a research process to go through a clear research philosophy. (“Research,” 2009) There is no research philosophy is better than another. The research question that the researcher seeks to answer will determine the research philosophy. (Saunders et al 2009)

Positivism Philosophy; Saunders et al (2007) advocates that the researcher works with observable social phenomena and does this by developing hypotheses from existing theory and finding data to free way; this however may not be the case if the researcher is involved more or her own values and feelings of people involved in the study influence the outcome of the research.

Interpretivism Philosophy; this philosophy emphasizes the importance of understanding the difference between humans and objects and believes that human are ‘social actors, whose action cannot be analysed based on generalizations as suggested by the other branches of philosophy. Saunders et al (2007)

Realism philosophy; Saunders et al (2007) explained that realism philosophy deals with reality being the truth. The similarity between positivism and realism lies in the fact that like positivism, realism supports the creation of knowledge with a scientific in collecting data and deriving results from that data. Two main types of realism are discussed as being highly relevant to business and management research. These are

Direct realism; in which, our sense create an understanding of the world around us.

Critical realism; in which it is believed that our sense only show us a part of the reality and that we need to process of further to understand the exact nature of the world around us.

Research Philosophy adopted for the dissertation;

According to Fisher 2004, it is difficult for Master in Business students to follow a totally positivist philosophy for their dissertations mainly because in most cases they research the organizations they work for and this makes an unbiased observation difficult as is required for a researcher following positivism. The author says that most postgraduate students take a realist approach in their research projects. However Saunders et al (2007) suggested that is possible for a researcher to include some aspects of positivism such as hypothesis testing and the use of qualitative methods in their research.

Since the research for this particular dissertation is based on Multinationals companies in Pakistan to which the researcher has no ties whatsoever, it can be assumed that this study is completely free from the influence of the researcher's own values. Hypotheses are testing through qualitative methods also from the basis of this research. This shows that a positivist philosophy has been adopted for this project. Additionally, since the study involves trying to capture how the FDI will increase in Pakistan.

Therefore, the researcher has adopted positivism strand of research philosophy for this research.

3.2.2. Research approach

In the research onion the second layer is the research approach. Easterby-Smith, Thorpe, and Jackson (2002, quoted in Saunders et al 2007) explain that it is important to identify a suitable research approach for a research project as it helps to researcher create the design for the project and chosen the right methods to carry out the research, it also helps identify the limitations of the research and thus, determine which research method is best suited for the project.

Saunders et al describe two main ways of approaching the research project, namely

Deductive approach: this evolves creating a theory or hypotheses around this theory which is then tested using qualitative and quantitative methods. The important characteristics of this approach include the establishment of causal variables so that they can be measured quantitatively, and generalisation of the concepts after using a sufficient sample size for the study.

Inductive approach: this involves creating theory based on the data collected as part of the research. This approach was favoured by researchers of the social sciences as they believed that unlike the natural sciences where a deductive approach is well suited to research phenomena, it is vital in the social sciences field to understand and its variables.

This dissertation includes the study of relevant existing literature to form a strong understanding of the field of research. This has led to the creation of a hypothetical statement that is to be tested by the collection of relevant data and analysing it to prove or disprove the hypothesis. The following are the characteristics where the researcher can select the deductive research approach.

- i. Formulate a hypothesis from the theory.
- ii. Expressing the hypothesis in operational terms.
- iii. Testing this operational hypothesis.
- iv. Examine outcome of the inquiry.
- v. Change theory in light of finding if necessary. (Burney, 2008)

Therefore, the deductive research approach strategy has adopted for this research

3.2.3 Research Strategy

The fourth layer in the research onion is research strategy. Research strategy is general plan of researcher will seek to ask their research question (Saunders et al, 2009). It will have clear objectives derived from the research question, state that the source from which the research intend to collect data and consider the constraint that the research will face for example access to data, time, location, money and ethical issues. “The research onion list six

alternatives of research strategies, survey, case study, ground theories, and ethnography and action research". (Saunders et al, 2009, p 141).

Other strategy was rolled out the very nature of them such as ethnography which is not very popular in business research and primarily used in the inductive approach. Action research was deemed to be inappropriate because the research is selected by the client. For this dissertation the data should be collected from those respondent who conduct business in

Pakistan and belong to another country or from those Pakistanis who working for a foreign t country operating business in Pakistan. It is very difficult to adopt the other strategy instead of questionnaires therefore the email questionnaire strategy has adopted for this research.

3.2.5. Time Horizon

Saunders et al (1007), describe cross sectional perspective as a “snapshot” taken of a particular event in a particular time, while longitudinal perspective can be considered like a “diary” model, in order to represent events over a given time period. Saunders et al (2007) suggest cross-sectional study as a study of one particular phenomenon or phenomena in a particular time. Bryman and Bell; (2007), define cross sectional design in a convincing way i.e., “A cross-sectional design entails the collection of data more than one case and at a single point in time in order to collect a body of quantitative or qualitative data in connection with two or more variables and needs to achieve the research objectives or quantifiable data in connection with two or more variables, which then examined to detect patterns of associations” (Bryman and Bell; 2007) In the present research the researcher has to test the suggested hypothesis and, needs to achieve the research objective in the time frame, given for the dissertation.

Rosbon (2002) opinions that cross-sectional studies often employ the survey strategy and they may be seeking to describe the incidence of a phenomenon or to explain, how factors are related in different organizations.

The proposed hypothesis is provable within in the given time. According to Saunders et al (2007), most of the academic research projects are time constrained. Same is here with the case of present of the academic research project. So the research is cross sectional. The researcher used a questionnaire which was administered during a particular time interval and

was give only once to the respondents considered in the sampling quota which once again proves that the time horizon of the research is cross-sectional.

3.3 Data collection

3.3.1. Research Type qualitative verse Quantities

Quantitative research methods mostly uses in natural sciences to study natural phenomena. Quantitative methods include survey methods, laboratory experiments, formal methods and numerical methods such as mathematical modelling. Quantitative research methods are asking questions about: how much? How many? How often? What extent? (Abawi, 2008)

Qualitative research methods uses in social sciences. This study enable researchers develop knowledge about social and cultural phenomena. Qualitative research methods include observation, interviews and questionnaires etc. Qualitative research methods are asking the answer to questions which start with, why? How? What way? (Abawi, 2008)

In the primary research of the Project the qualitative research method has been applied. Thus, by using of qualitative method researcher has identified some important trends for study. These include the dependency of the investment project initiation on key economic and political events, the barriers and motivation of FDI to Pakistan, the percentage of successful project of successful investment projects undertaken in Pakistan, the amount of foreign investors that are planning to expand their operation in Pakistan. The most frequently cited the investment, effects and problems.

3.3.2. Data collection Methods

Data collection and data analysis is the core of the “research onion” Saunders et al (2003). There are mainly two types of data emerge in a research project. They are secondary data, which is collected for the research project from other sources and Primary data, which is collected for the specific purpose of the project, (Saunders et al, 2007) Research has used both secondary and primary data, for answering the research question and objectives.

3.3.4. Secondary source

Secondary data include both raw data and the data are published, that is quantitative type of data. Mostly in academic research, research question and objectives find reasonable answers from the combination of both qualitative and quantitative data. Usually in academic research, while preparing the literature review, one goes through various literatures including books, journals and magazines including electronic resources with proper referencing for the source

of data. (Saunders et al, 2007)

A thorough search and review of literature related to the project was crucially important for this study as it help to identify existing knowledge in this area and prevent me from the need to rediscover things that has already been reported. Thus, the author went through a large amount and wide variety of different secondary sources of information for this research.

3.3.4. Primary Data

The method used to collect primary data was Email Questionnaire.

Teresa and William (1997, p17) give the definition for a structured questionnaire as well organized data collection method when the researcher knows exactly what information is required and how to measure the variables of interest.

Since questionnaire is the chief data collection tool, it is significant that essential questions related to the study must be used to get the appropriate result. In order to extract the correct required information from the respondent, correct terminology must be used (Saunders et al, 2007)

The eight steps questionnaire construction model mentioned by David (2010, p 111), has been adopted by the researcher in the questionnaire construction procedure.

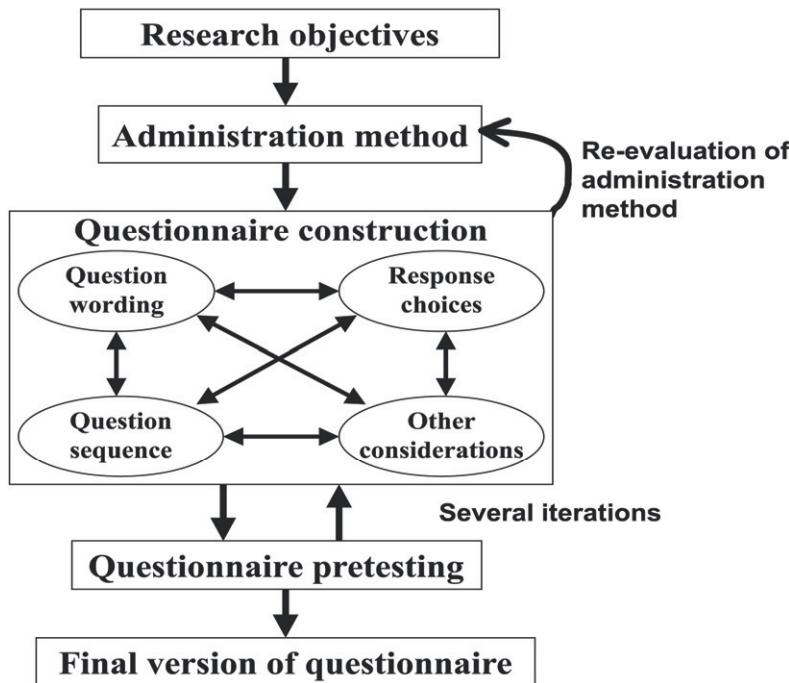


Fig: 3.2. The eight steps questionnaire construction procedure

Source: David (2010)

The questions used in the questionnaire must be constructed using clear, concise, and easily understandable terminology. “Double barrelled questions and jargon “must be avoided in order to reduce confusion among both parties. (Bruce; 2004)” a questionnaire writer who is not familiar with vocabulary of a market can very quickly come stuck (Bruce; 2004)” This justifies the researcher for keeping the questionnaire in the simplest language.

Certain questions were graded using a Likert scale and were asked to mark by the respondents for their best response options that best reflect their attitude on each item (Kumar, 2005). A Likert is a statement. The respondent is asked to indicate his or her degree of agreement with

the statement or any kind of subjective or objective evaluation of the statement (Malhotra, 2007). This justifies the researcher for collecting precise measurements.

Williman (2005) suggested that a trial test of questionnaire called pilot study helps the researcher on understanding the practical difficulties in the prepared questionnaire. Hence the questionnaire was pilot tested before the actual data collection. This helped researcher to improve the quality of questionnaire and its effectiveness in collecting they require information.

In the present research, the researcher emailed the questionnaire to the respondent; this ensured a completed and accurate response from the respondents. While emailed questionnaires, there was no influence from the researcher side.

This method has advantages and disadvantages. One of the main advantage of e-mail questionnaires is the lowest administration costs of research methods; both financially and temporally. Moreover the respondents can answer the questionnaires in the time that is best suited to them and there is no need to schedule meeting. Move over, this method can be used in a research where the respondents are disoriented within a wide or far away geographical area (as in case. In addition to this the speed of the data collection can be very high). (Gill & Jonson 2002)

The disadvantages are mainly related to the response bias; and email questionnaires generally do not achieve good response bias; and email questionnaires leave privacy issues open. To deal with these issues (in the primary research of this study) the author sent a cover letter with each questionnaire encouraging respondents that any information provided would be treated in the strictest of confidence and that results of the research would be confidence and the results of the research would be used solely for the purposes of this study and such information would not be transferred to any other party. (For more details see appendix)

Response from the respondent SPSS was used to store these data, error-prone and enabled the researcher in doing to the categories and respective classes for counting and additional statistical analysis.

The questionnaire was based on a few concepts (Malhotra; 2007) and hence were divided into three sections. A sample of questionnaire is given in the appendices chapter.

3.4.5 Population and Sampling

According to punch (2003) “Sample” is a technical term used for smaller subset drawn from a larger group. The technical term for the “larger group” is called population. The usual situation in a research, especially academic research is that, one need to find something about a population, but study is only on the sample of that population. According to Bryman and Bell (2007), sampling is one of the important criteria while doing a quantitative research.

In the present research population was Pakistan and sample was different companies those have already invested their capital in Pakistan. The researcher believes that nobody can identify the increase volume of inward FDI to Pakistan better than foreign investors. They are currently conducting business there and they see what problems Pakistan should solve and what factors of success should be developed in order to attract FDI for positive effects of the economy.

Thus, researcher sent questionnaires to the top level of management of the main companies-investors or to those who working for a foreign companies which operate business in Pakistan. The companies that took part in my questionnaire survey are from different countries and undertake different business in Pakistan. Such a diverse approach will present the results more clearly and will provide more accurate research results. (For more information see appendix)

Summary

This chapter significantly delineated research design, the nature of the study, the procedure used to collect the data and the description to the measuring instruments adopted and the hypothesis which is going to be tested in the following chapter.

Chapter 4: Findings

This chapter presents an analysis of the findings of primary research conducted. Here, the researcher connects the theoretical knowledge gained through continuous research of secondary sources of information (related to the topic) to the results of the primary research. Such connection of the theory and practice provides the researcher with a greater vision of the entire topic and facilitates a definite answer to the core question of this paper “How can Pakistan increase the volume of its inward FDI?”

In overview of the results obtained in the study are presented and discussed, it starts by introducing the main characteristics of the population and thereafter the hypothesis and comparison of FDI in Pakistan with other countries will be tested. For this purpose the researcher are using non parametric statistic and where necessary will be used parametric statistic.

4.1. Descriptive analysis

4.1.1. E-mail questionnaire outcome

During the survey period (4 weeks) 80 questionnaire were sent to companies of different origin that undertake business in Pakistan. In the end of the Survey period 35 questionnaires of the companies responded. Producing a return rate of 43.75% as presented below.

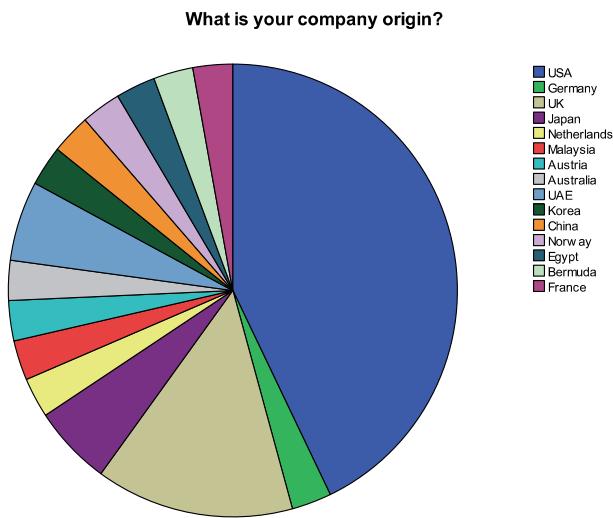
Table 4.1: Investors Internet Questionnaires Results

Questionnaires	Frequency	Percentage
Sent		
Completions	70 35	100% 41%

Thus, the primary research (Questionnaire Survey) in this paper is based on the answers, experiences and opinions of 35 foreign investors from different countries.

The process of getting data through questionnaire was difficult. The research had to push the investors were contacted by phone in order to obtain the direct email addresses of managers

of the Pakistan operation, offices and subsidiaries. Some contacts were provided by the Board of Investment in Pakistan base in Islamabad. More than half of the responses were obtained with the help and personal contacts of Amanullah Khan. He has been working one of the departments BOI since 2004. His involvement in the data collection process prevented this research from failure.



Question 1: Origin of the company

Fig: 4.1

By asking the respondents about origin of the company is the most important question of the research because this show the interest of the foreign company in host country. From the above graph its shows that USA, UK and Japan are currently the big investor in Pakistan. There is huge potentials for the other countries like China, Germany and Netherlands to invest in Pakistan if Government give support to these foreign investors and give generous investment incentives (tax or non tax) to the above mention countries ,which is directly linkage to researcher second hypothesis and which will ultimately make Pakistan best investing location of Asia. Researcher's statistic and analysis is given below.

Table 4.2a companies origin

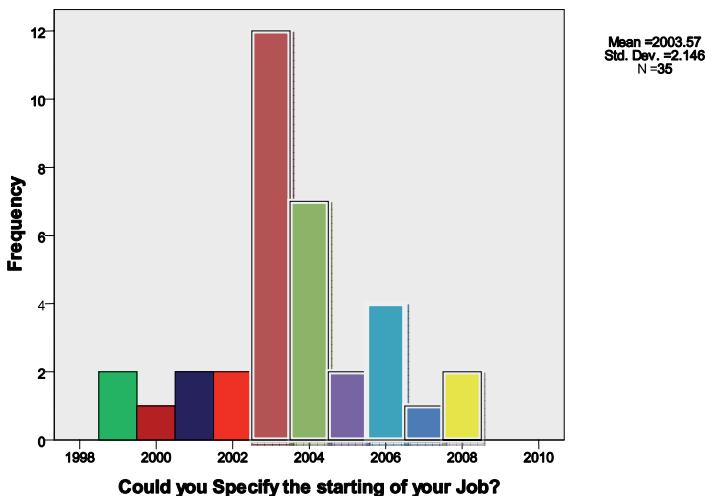
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	USA	15	42.9	42.9	42.9
	Germany	1	2.9	2.9	45.7
	UK	5	14.3	14.3	60.0
	Japan	2	5.7	5.7	65.7
	Netherlands	1	2.9	2.9	68.6
	Malaysia	1	2.9	2.9	71.4
	Austria	1	2.9	2.9	74.3
	Australia	1	2.9	2.9	77.1
	UAE	2	5.7	5.7	82.9
	Korea	1	2.9	2.9	85.7
	China	1	2.9	2.9	88.6
	Norway	1	2.9	2.9	91.4
	Egypt	1	2.9	2.9	94.3
	Bermuda	1	2.9	2.9	97.1
	France	1	2.9	2.9	100.0
	Total	35	100.0	100.0	

The above figure shows that the highest Percentage of the participating companies in the Survey is USA (42.9%), UK (14.3%), Japan and UAE (5.7%) and the rest of the countries respondents one completed questionnaires from the companies which is (2.9%). Such Distribution among the countries is purely random and the return based on the initiative of the companies to participate in survey questionnaire.

Table 4.2b What is your company origin?

No	Valid	35
	Missing	0
Mean		4.54
Median		3.00
Mode		1
Std. Deviation		4.421
Variance		19.550
Range		14
Minimum		1
Maximum		15
Sum		159
Percentiles	25	1.00
	50	3.00
	75	8.00

The above table shows that Numbers of respondents is 35. Mean is 4.5, Median is 3, and Mode is one. While Standard Deviation is 4.421, variance is 19.55 Range is 14. Minimum and Maximum is 1 and 15.



Question 2: The year of starting job

Fig: 4.2

By asking the respondents the starting their job in the company we might be able to ascertain what kind of staff turnover exists. If the majority of staff have been in the organization for less than one year it would be reasonable to assume that there is high degree of turnover. This could imply that staffs are leaving for a number of reasons which may affect the company reputation. After examining the results of this question my findings were as follows.

Most companies' respondent that participated in the Survey started their job with the company in 2003 (34.3%). The second big participants they started their job in 2004 (20.0%). The rest of the company's participants started their jobs between 1999 and 2008. According to some comments of the questionnaire participants, in 2003 was a lucky time for starting my job with the companies. Because there was a complete changed in the attitude of the investing companies and their stake holders. According to another participant, that after 9/11, the

investors mostly entered to Pakistani Market in 2003. These investors has interested to enter to Pakistani market but waiting for the right time which the participants thought was 2003 and 2004 after cold down to some extent the Afghan war. The period of 2001 was full of unfavourable economic and political events. In order to Afghan War, the government was in the hands of dictator, terrorism and security problems and general economic instability, and crises. According to another participant that investors come to Pakistan when the situation improved significantly, in term of investment risk and they spread their businesses. Thus, such tendency that higher credit rating/ more stable the economy- higher investors, interests if improved the security problems gives a hope to Pakistan for in increase the volume of inward FDI in the future as the analysis shows continuous improvement of different aspects of the investment climate in Pakistan especially security problems which is improved to some extent in 2010. Therefore, this question is indirectly related with hypothesis one. The disadvantages of Pakistan investment climate restrict the increased volume of FDI to Pakistan.

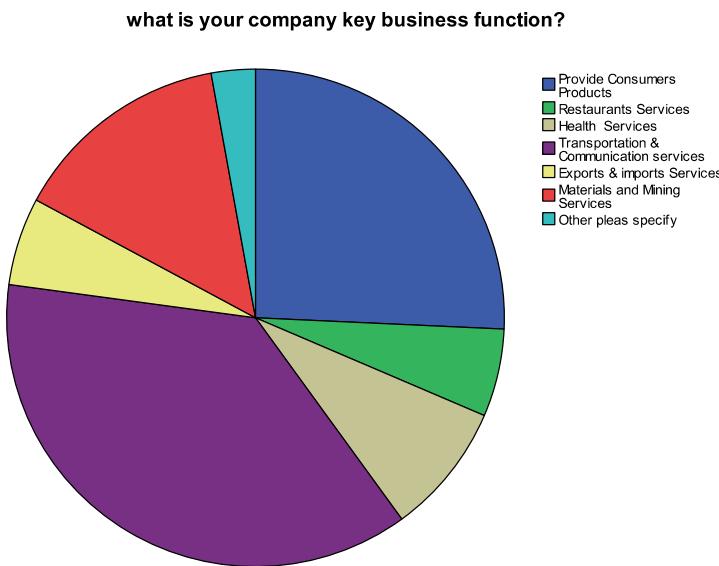
Table: 4.3 The Year of Starting Job

N	Valid	35
	Missing	0
Mean		2003.57
Median		2003.00
Mode		2003
Std. Deviation		2.146
Variance		4.605
Range		9
Minimum		1999
Maximum		2008
Percentiles	25	2003.00
	50	2003.00
	75	2005.00

The above table shows that Mean, Median and Mode are the respondent starting their job about the same which is 2003. While Standard Deviation 2.146, Variance is 4.605 and Range is 9 which is the Minimum and Maximum is 1999 to 2008 respectively.

Question No 3: company key business function

Figure 4.3



By asking the respondent the company key business function is most important question. This shows that transportation and communication are the most profitable business in Pakistan. This shows that Pakistan has a huge population, a big market size, good strategic location and infrastructure facilities and that's the most attractive factors that bring other companies to Pakistan. Our second hypothesis is directly related to this question and if we show these advantages and advertise our KSFs to the outside world, Pakistan will be best place for investment. Statistic for this question is given below.

Table: 4.4a What is your company key business function?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Provide Consumers Products	9	25.7	25.7	25.7
	Restaurants Services	2	5.7	5.7	31.4
	Health Services	3	8.6	8.6	40.0
	Transportation & Communication services	13	37.1	37.1	77.1
	Exports & imports Services	2	5.7	5.7	82.9
	Materials and Mining Services	5	14.3	14.3	97.1
	Other please specify	1	2.9	2.9	100.0
	Total	35	100.0	100.0	

Foreign investors involve currently in a variety of business operation in the Pakistani Market. However according to the respondents of this research, the key business function of most of the companies' transportation and communication services (37.1%) as well as provide consumer products (25.7%). Restaurants and export and import services, health services and materials and mining companies all are engage in Pakistani market.

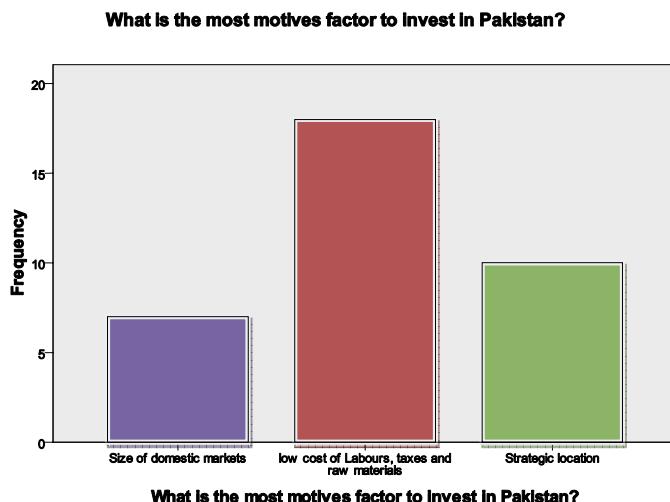
**Table: 4.4a What is your company
key business function?**

N	Valid	35
	Missing	0
Mean		3.46
Median		4.00
Mode		4
Std. Deviation		1.821
Variance		3.314
Range		6
Minimum		1
Maximum		7
Percentiles	25	1.00
	50	4.00
	75	4.00

Numbers of respondents is 35. The minimum no of the companies which involves in different business is 1 while the maximum is 9. The key business functions of the companies mean is 3.46 while Median and Mode are the same which is 4. The Standard Deviation and Variance are 1.821 and 3.314 respectively.

Question No 4: Most motives factors to invest in Pakistan

Figure 4.4



By asking respondent about KSFs or most motives factors are critical for foreign companies because they came to host country on the base of these factors. When asked about these factors, cost was the most important factor among all others factors. This is the most advantage of Pakistan that cost of production is very low from raw material to taxes. This question links directly with second hypothesis. So by adopting and developing these KSFs Pakistan is the most favourable place for investors. Complete statistical analysis for this question is given below;

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Size of domestic markets	7	20.0	20.0	20.0
low cost of Labours, taxes and raw materials	18	51.4	51.4	71.4
Strategic location	10	28.6	28.6	100.0
Total	35	100.0	100.0	

Most motives factors in Pakistan Table 4.5a

Most foreign investors (21.4%) are interested in Pakistan because of the low cost of labours, low level of taxes and low cost and easily availability of raw materials. The second and third important factors are strategic location (28.6%) and size of domestic market (20%).

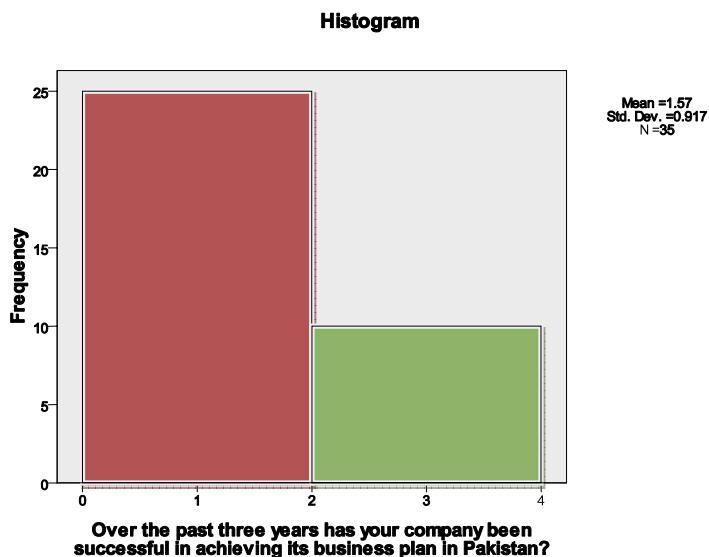
Table: 4.5b Most motives factors

N	Valid	35
	Missing	0
Mean		2.09
Median		2.00
Mode		2
Std. Deviation		.702
Variance		.492
Range		2
Minimum		1
Maximum		3
Percentiles	25	2.00
	50	2.00
	75	3.00

The No of respondents to answer of this question is 35. While the answer was available from minimum 1 and maximum is three. Therefore, the range, mean, median and mode are about the same which is 2.

Question 5: Over the past three years has your company been successful in achieving its business plan in Pakistan?

Figure 4.5



By asking the respondent about this question is the most critical in the researcher questionnaire because this directly to our first hypothesis. The result is above 70% which is not good. Every company that invest in other country think strategically and they want 100% results. They plan in for coming 15 to 20 years in advance and that's why they negotiate regularly with government. Corrupt bureaucracy, security problem and poor government

climate prove our first hypothesis that these disadvantages restrain the volume of inward FDI to Pakistan. The result should be above 95%. The statistic and analysis is explained below

Table 4.6a. Over the past three years has your company been successful in achieving its business plan in Pakistan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Successful	25	71.4	71.4	71.4
	Neutral	10	28.6	28.6	100.0
	Total	35	100.0	100.0	

Most foreign investors' respondent that their companies are succeeding in Pakistani market place. 71.4% of respondent said that they have been successful in achieving their goals over the past years while the rest of 28.6% is neutral. Such distribution of the answers gives hope for a successful future. When investors are succeeding in term of sales, profits and realising their business plans, they probably will expand their investment in Pakistan and will give a positive review and reports about the country as an investment destination, so, overall the country's will be improved.

Ten companies they did not get any profit or lost in the past few years. Therefore, some things can be wrong in the Pakistani market but it is still not negative factor for overall negative review.

Table 4.6b Company business plane

N	Valid	35
	Missing	0
Mean		1.57
Median		1.00
Mode		1
Std. Deviation		.917
Variance		.840
Range		2
Minimum		1
Maximum		3
Percentiles	25	1.00
	50	1.00
	75	3.00

The above table show that total respondent answer of this question is 35. Median, mode and percentile is 1 while mean, standard deviation, and variance is 1.57, .917, and point .840 respectively. The minimum, maximum and range are 1, 3 and 2 respectively.

Question6:

Is your company planning on expanding or reducing its business operation and investment in future?

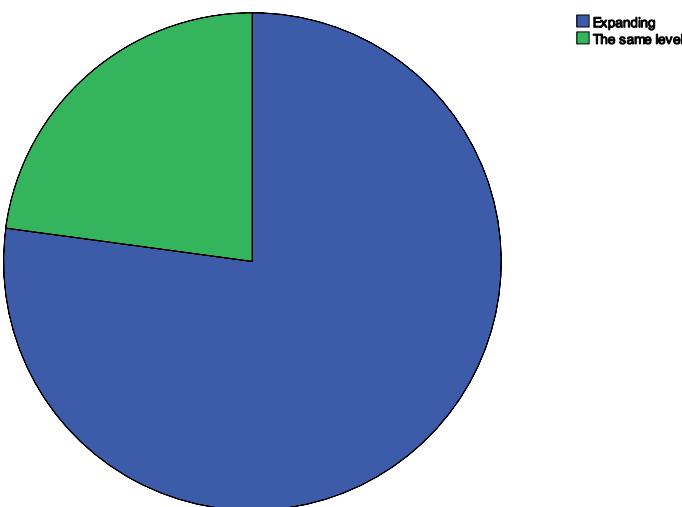


Fig: 4.6

By asking the respondents about the expanding the business operation is also an important question. Expanding the business operations mean companies are quite happy in operating in host country which will directly increase FDI the result was 77.1%, which was not to the expectations of the researcher. The result is positive but it should be above 90%. Above 22.9% of companies don't want to expand their operations which is the direct reason of Pakistani climate which restrict inward FDI which is shown in first hypothesis. Complete statistical analysis for this question is given below.

Table 4.11 Companies planning for the future

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Expanding	27	77.1	77.1	77.1
The same level	8	22.9	22.9	100.0
Total	35	100.0	100.0	

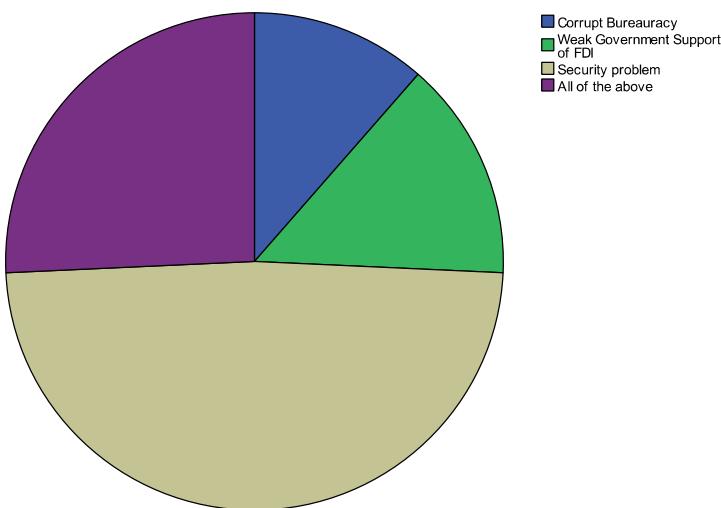
The majority of current foreign investors have aggressive expansion plans for the Pakistani market. More than quarters plan to expand business operations and increase investment in the Pakistani market within the next three years. Only 22.9% of participants are not planning any active action towards additional investment into Pakistani market.

Question 7: barriers are restricting to FDI

Figure

4.7

What barriers are restricting to increase FDI into Pakistan?



This question is directly linked with first hypothesis. In attracting FDI every single factors should be noted and importance should be given to every factors that cause barriers and help to FDI. Here in this case by asking the respondent about the barriers to the FDI, respondents agree that security problem and corrupt bureaucracy are the main barriers to the FDI. More statistical detail is explained below

Table 4.12. What barriers are restricting to increase FDI into Pakistan?

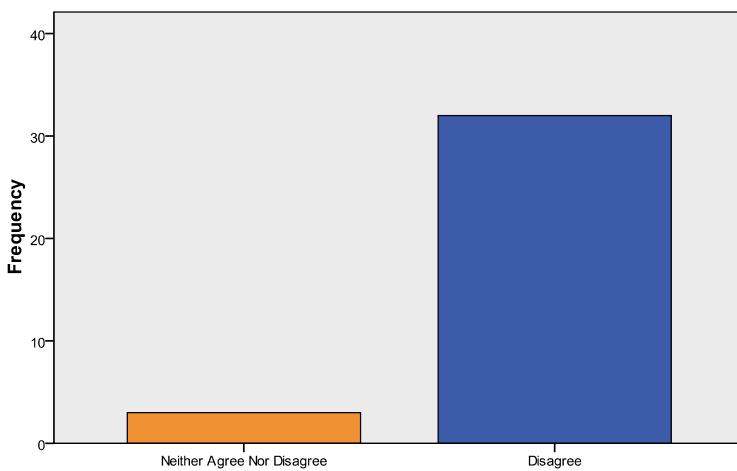
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Corrupt Bureaucracy	4	11.4	11.4	11.4
	Weak Government	5	14.3	14.3	25.7
	Support of FDI				
	Security problem	17	48.6	48.6	74.3
	All of the above	9	25.7	25.7	100.0
	Total	35	100.0	100.0	

Majorities of companies have more than one obstacle in conducting business in Pakistan. 48.6% of respondents named security as the top barrier they face in conducting business in Pakistan. Corrupt bureaucracy (11.4%) and week supports of government of FDI (14.3) and all the above mention problems (25.7%) were the most cited problems that investors face in conducting business in Pakistan. such outcome of the primary research supports the recommendations made in the literature review. Inadequate and inconsistence legislation and inefficient judicial system have been cited as the main barriers to conduct business in Pakistan which come under the topic of weak supports of the government of FDI.

Question 8: Problems regarding the labour market

Figure 4.8

Have you experience any problems regarding the labour market in Pakistan?



Have you experience any problems regarding the labour market in Pakistan?

Labour market in Pakistan is the most important factor. A big pool of high skill and lower cost is available any time. There is no doubt about the labour efficiency of Pakistani labour. Above 93% agree with this. This question is related to our second hypothesis that labour is one of the KSFs and most companies that are investing in Pakistan are coming for this low cost labour. Statistical analysis of has been given below:

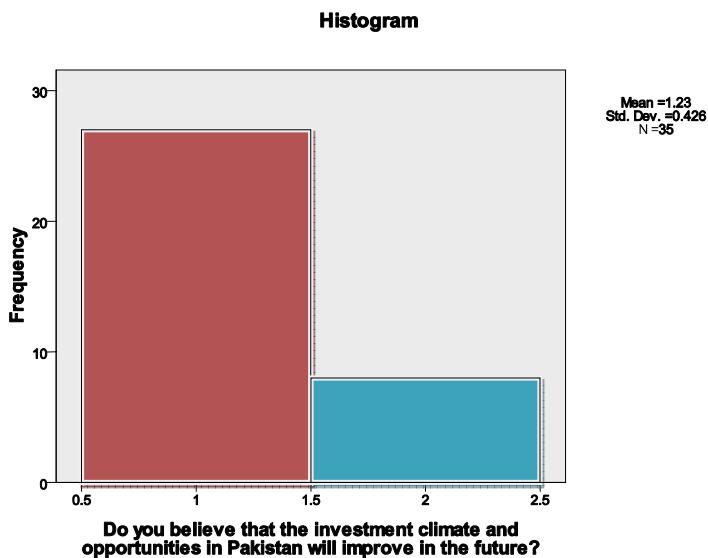
Table 4.9 problems regard the labours Market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither	3	8.6	8.6	8.6
	Agree				
	Disagree				
	Disagree	32	91.4	91.4	100.0
	Total	35	100.0	100.0	

The table shows that investors are disagree that they have any problems regarding labours. 91.4% said that they are satisfied from the labours in Pakistan which prove this point in literature review that Pakistan has a high quality, professionals and flexible labours which attract the foreign investors to Pakistan. Therefore, this question has a direct linkage with the second hypothesis in which labour is one of the KSFs of the top recipients of FDI in the world.

Question 9: investment climate and opportunities in Pakistan

Figure 4.9



Investing climate is actually the environment in which the firms operate include policies and regulatory environment in which government play an important role. Currently the economic climate is tough but every firm and company is optimistic about the future of Pakistan. More than 77% agree that it will improve in the near future. This question is linked with question number seven and as well hypothesis No one in which barriers is described. Most of them agreed that if the barriers are removed then investing climate will improve very quickly. More statistical detail is given below:

Table 4.9. Do you believe that the investment climate and opportunities in Pakistan will improve in the future?

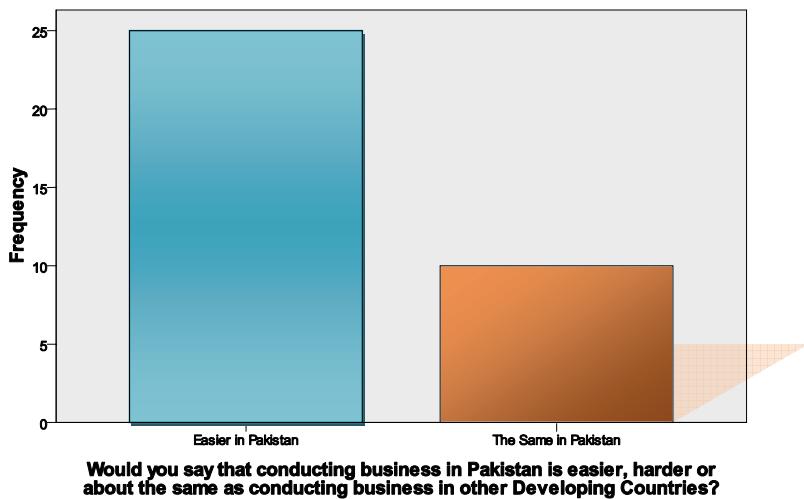
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Improve	27	77.1	77.1	77.1
Remain the same	8	22.9	22.9	100.0
Total	35	100.0	100.0	

Companies participating in the survey questionnaire (77.1%) believed that the investment climate and opportunities in Pakistan will get better in the future while 22.1% expect that it will remain the same. Questionnaire participants did not comment on the choices of their answers in this question, so it is difficult to judge what made them think the investment climate would improve or will be on the same level. Based on the literature review and primary research that investment climate will improve if Pakistan eliminates the barriers which are mentioned in question seven.

Question 10: Conducting business in Pakistan

Figure 4.10

Would you say that conducting business in Pakistan is easier, harder or about the same as conducting business in other Developing Countries?



Would you say that conducting business in Pakistan is easier, harder or about the same as conducting business in other Developing Countries?

By asking respondent about conducting business in Pakistan, mostly response that conducting business in Pakistan is easier this question is very important and has directly linkage with question four and question eight and hypothesis two. The KSFs like easily availability of labours, low cost of inputs and taxes are positive in Pakistan therefore, to operate business in Pakistan is easier than other developing countries. Statistical details are given below;

Table 4.15 Conducting business in Pakistan

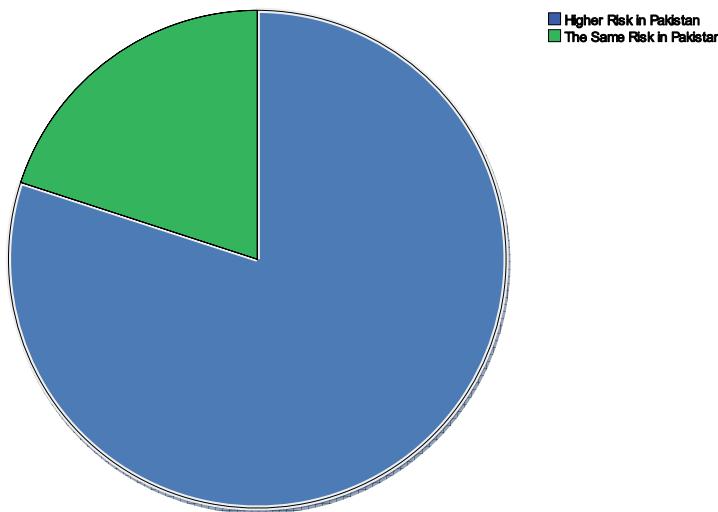
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Easier in Pakistan	25	71.4	71.4	71.4
	The Same in Pakistan	10	28.6	28.6	100.0
	Total	35	100.0	100.0	

According to the result of the primary research, Pakistan is considered by the foreign investors (71.4), to be easier place for conducting business. The rest of 28.6% said that conducting business in Pakistan is the same as conducting business in other developing countries.

Question 11: Investment risk

Figure 4.15

How would you compare the investment risks in Pakistan as conducting business in other Developing countries?



This is also an important question and has linkage with hypothesis one. As compare to other developing countries in South Asia like China and India in South Asia the result shows that Pakistan is the higher risk area in order to internal problems. In last few years, political, economic climate are become more unstable and there is more investment risk and companies hesitate to invest. Although companies that are operating from last two decades are very optimistic about this and they think that investment climate will be favourable very soon. Statistical analysis is given below:

Table 4.12a How would you compare the investment risks in Pakistan as conducting business in other Developing countries?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Higher Risk in Pakistan	28	80.0	80.0	80.0
	The Same Risk in Pakistan	7	20.0	20.0	100.0
	Total	35	100.0	100.0	

In terms of investment risks, Pakistan performed worse (80%) than most of its global developing countries in the region. The author think that internal problems which mentioned in questions seven created higher risk in Pakistan than other developing countries.

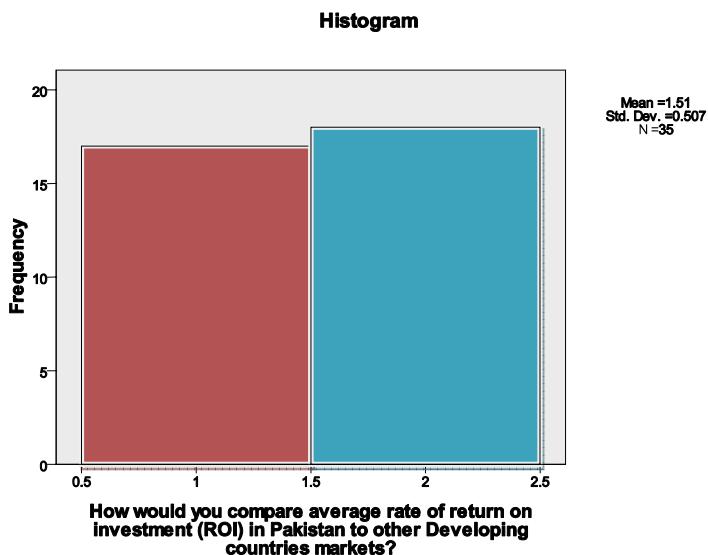
Table 4.12b Investment risk

N	Valid	35
	Missing	0
Mean		1.20
Median		1.00
Mode		1
Std. Deviation		.406
Variance		.165
Range		1
Minimum		1
Maximum		2
Percentiles	25	1.00
	50	1.00
	75	1.00

The number of respondent who answer to this question is 35. While mean, median and mode are about the same which is one. Minimum answer is one while the maximum answer is three, therefore, range is one.

Question 12: Return on Investment

Figure 4.12



Mostly companies working in Pakistan is multinational, by asking this question it compare the average rate of return with other developing countries, therefore, this question is directly link with hypothesis two. If the average rate of return is more it mean that the country has adopted the KSFs of top recipients or vice versa. More statistical details have been given below:

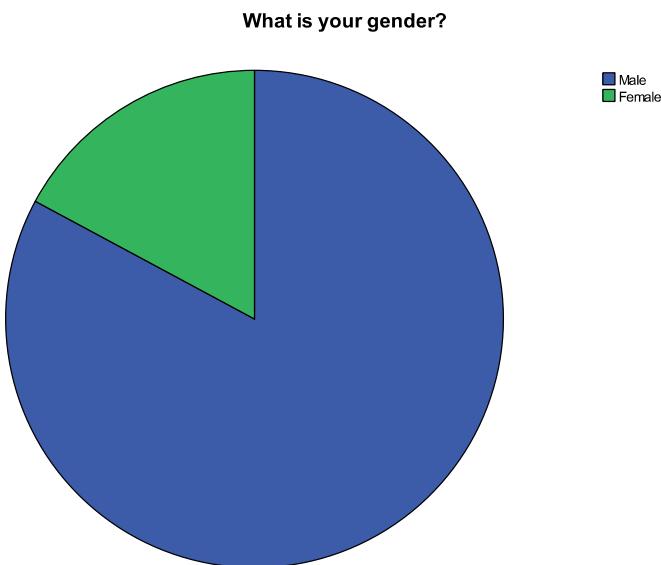
Table 4.18 Return on Investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Higher ROI in Pakistan	17	48.6	48.6	48.6
	Same ROI in Pakistan	18	51.4	51.4	100.0
	Total	35	100.0	100.0	

With regard to the average Return on Investment (ROI) Pakistan received about an average rate of response. 51.4% said that Pakistan has the same ROI while the rest of 48.6% responded to higher ROI than other developing countries. The author believed that inexpensive labours and raw materials, low level of taxes, and size of domestic market lead to higher ROI while lack of infrastructures facilities, weak government support of FDI and lack of other KSFs leads to lower ROI or the same ROI. Therefore, this question linked to hypothesis two.

Question 13: What is your Gender?

Fig 4.13



By asking the respondents about the gender is also an important question. According to the result obtained from the primary research that mostly the labours are male which prove about the culture of Pakistan which has been mentioned in literature reviews that women mostly working at home. Therefore, this question is directly linked to hypothesis one. Because culture as well a problem for any country which retain the investor to invest in that particular country. Statistical detail has been given below;

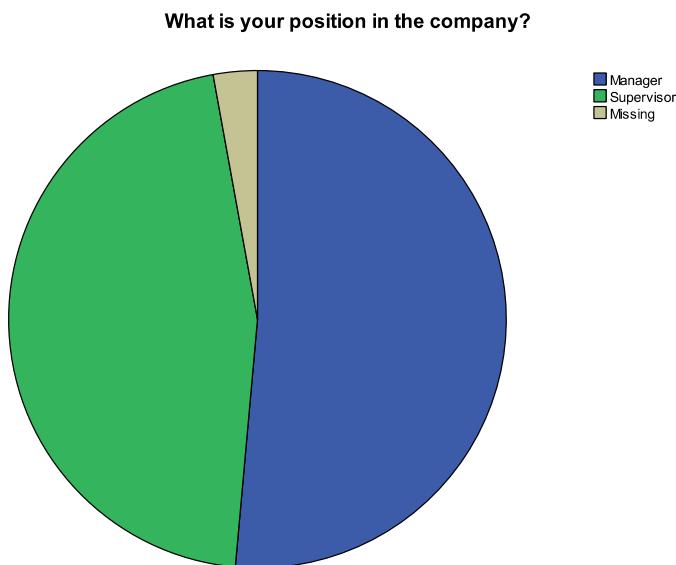
Table 4.18. What is your gender?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	29	82.9	82.9	82.9
Female	6	17.1	17.1	100.0
Total	35	100.0	100.0	

According to the result obtained from the primary research majority 82.9% male labours while the rest of the 17.1% is female workforce. It means there are unequal distribution of workforce between male and female. The researchers strongly believe that the main reason for unequal distribution between male and female in the field of labours is, in order to culture of Pakistan.

Question 14 Position in the company

Figure 4.14



With regards to this question the researcher wanted to know that from whom he got the response. The main reason for that was mostly the lower rank workers has little knowledge then the higher rank. It is considered that the higher rank person must be more experienced and qualified then the lower rank person. The statistical detail for this question is blow;

Table 4.19. What is your position in the company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	18	51.4	52.9	52.9
	Supervisor	16	45.7	47.1	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
	Total	35	100.0		

Nearly half of the respondents are Manager (51.4%) while 45.7% was Supervisor and one respondent (2.9%) did not prefer to disclose their position. The result shows that mostly respondents had higher responsibility of their job. It means that they must have experienced and knowledge what the researcher asked in the questionnaire, therefore, it is believed that the primary research should be accurate and to the point for this time period.

Summary and conclusion of main finding of primary research

The result of the Survey Questionnaire demonstrates that Pakistan is a favourable location for foreign capital. The vast majority of foreign investors (questionnaire participants) are succeeding in Pakistan in term of their businesses. So, most investors are planning to expand their operations and investment in Pakistan in the near future.

The result also shows that Pakistan has a high investment potential. The country satisfies the main strategic determination of FDI. First Pakistan has a big potential market with a large population of consumption and income per capital. Secondly the availability of natural and human resources and have low cost advantages of inputs labours and taxes. All of these points are tested in the primary research and received the highest percentage of votes.

However in term of barriers, Pakistan faces major obstacle to attracting FDI. In which the most is security problems, corruption, bureaucracy, no support of the government to FDI etc. The result of comparison of Pakistan with other developing Pakistan is considered that easy region in term of conducting job while got a higher percentage of votes in terms of riskier state for investing then other developing countries.

Half of the respondent said that Pakistan has a higher ROI then other developing country while the other chose the same ROI like other developing countries. Finally the majority of the respondents were male and supervisor or manager of the company.

CHAPTER 5

Final Recommendations and Findings

The recommendations in the following section are written based on the findings in the literature review and the Primary research undertaken for the purpose of the study.

In accordance with the findings of this study there are several areas that need to be addressed in order to increase the volume of FDI to Pakistan. The recommendations are designed for the attention of Government, BOI and foreign companies and suggest the active involvement of these groups. The involvement of the Government and policy Makers is of crucial important in order to work in the overall improvement of investment climate of the country (for investment risk reduction and development of investment opportunities). Recommendations should also be considered and promoted by the Federal Investment Promotion Agency- “Trade and Investment Agency of Pakistan”. Some of the recommendations should be considered by regional promotional agency as they provide some advice on how the efficiency of BOI can be increased and how obstacles that foreign investors face in Pakistan can be overcome. The following section should be used as a guide for what are generally recommended actions and for detailed recommendation additional research should be undertaken.

1.1. Final Recommendations

Pakistan can increase the volume of inward FDI by solving its internal problems of investment climate and developing some key factors that are crucial for success (based on the analysis of the top FDI recipients).

Recommendation 1: Active promotion of Pakistan as a great investment location and strong support of foreign investors.

Pakistan needs to become more competitive and proficient in attracting FDI and in understanding and meeting investors' expectations. It should learn to promote itself as a great investment location. Moreover, foreign investors must see that Pakistan is interested in their capital; that it demonstrates direction towards the improvement of its investment climate and

values every single invest as a special one, through offering great support and help throughout the process of investing and operating. This goal is achievable if efforts are made on different levels.

Investment promotion strategy that outlines the Government's commitment and approach to attracting FDI should be developed. Such strategy should outline the main direction of the promotion activities including what actions the Government will take to improve the business environment; details on how coordination of investment promotion strategy and facilitation is going to be achieved at both federal and provincial level.

The BOI should become an active leader of promotion activities within the country and worldwide investors. BOI is the main source of contact at federal level in Pakistan and it is going to be the first point of contact by any potential investor in the case of interest in the country as an investment destination. It is the first source where investors will get an impression the country's profile, get information about investment opportunities and Pakistan partners and find out what investors are already conducting businesses in Pakistan. Such information should be freely available for investors and delivered in a professional manner. This BOI should provide a wide range of high quality services for investors.

Firstly it should establish some kind of information analytical network that would provide information on different provinces. And the investment potential in Pakistan.

Secondly, it should have an up to date web site available in different languages to facilitate easy access to desirable information.

Thirdly it should undertake proactive marketing such as the organization of focused seminars, conferences and exhibitions, publishing articles in national and international press regarding Pakistan and its investment opportunities. These are very general but important activities for creating of public awareness.

Fourthly, the agency could develop cooperation with international financial organisations.

Pakistan should also learn the experience of IDA and Enterprise in Ireland and should take the similar steps to attract FDI. Pakistan should give equal importance to all four provinces, FATA, Kashmir and Gilgit Bulkistan. In which they focuses now days a few areas of bigger

cities in Pakistan. Thus, BOI should provide full information about all regions; through this the investor can find the region where they can get competitive advantages.

Recommendation 2: improvement of the business environment (simplify the process of investing and operating from the legislative point of view).

Improve the business environment laws, regulations and procedures to ensure Pakistan is not put at competitive disadvantages with other countries. Drawing on best practices in independent bodies to assist investors with obstacles encountered when investing and for bringing together foreign investors on Pakistan to play a policy advocacy role.

The business environment in Pakistan might be improved by simplifying the procedures of certification, licensing and customs clearance as the majority of foreign investors come across them on a regular basis. (Basically cut down the red tap). This authority should become more open to dialogue with business and facilitate the process of processing the documents, for example the customs authority could move away from demanding that companies meet absurd requirements especially the submission of various documents. Certificate authorities could simplify and shorten the process of certificate application. At the same time the authorities cannot really be blamed as they are just following legal documents. Thus, the legislation concerning those areas should be revised and rewritten with the idea of making the business environment better.

Recommendation 3: Government support and development of Education

The Pakistani government should increase investment in education and stop cutting down the free based place in the third level establishments. Transferring free education to the commercial one will not help the country to keep its competitive advantage of a well educated workforce. So, if Pakistan wants to sustain this advantage it should make education affordable for every student (as it used to be just a few years ago). The proper funding and high quality of education lead to comparatively low pay rates will be crucial in the process of attracting FDI. (The lesson of the top FDI recipients also shows that all of them make the further development of the educated workforce factor in their national priority. Pakistan should pay attention to such a tendency and get its priorities right if it wants to compete successfully for FDI in the future).

As the English language is a factor that is usually considered by foreign investors in choosing the location of their capital (English as an international language facilitates communication with foreign companies), the Pakistani government should make the development of English speaking skills, in both private and government schools, of both a priority. Basically, the educational establishments on different levels should put an emphasis on the language skills of the people in the country in order to facilitate the foreign investment.

Recommendation 4: corruption elimination

The issues of corruption have been discussed in the literature review in details. This problem was also identifying the highest barriers to invest in Pakistan in the primary research. Thus, something should be done about it.

The Pakistani government should make corruption elimination a top government priority if it's serious about increasing the volume of inbound FDI to the country. It should undertake real anticorruption actions and the mean of real here is fines, prosecutions and job dismissals. At this stage many anticorruption legal acts and orders have been introduced but it looks like they are not been used. So, it is the right time to exercise them and the starting point should be government officials and politicians. Corruption should be eliminated in the roots of the ruling source of the country; so society will not refer to country's heads when it is accused of being corrupt. (Society cannot be expected to follow anti corruption laws if the government itself is a greater example of it).

Thus, any kind of corruption especially briberies at a government level should be punished severely and such transgressions should be brought to the public attention. In this case people will see that the problem has been dealt with effectively and that the rule of law prevails. Government officials will be attitude toward corruption and will not accept it as a norm.

The way of dealing with this problem could be the establishment of a separate independent body that is represented by independent inspectors. They could keep watch government officials and investigate case of alleged corruption. It is very important to set this up independently as the police and special investigation agencies are well known for case of corruption themselves.

The government also should change the attitude of their public toward corruption. Today people accept corruption as a reality of life and often are forced to give bribes. So society

should stop facilitating corruption, it should report all such incidents. However, it is the mentality of every Pakistani to live in a corrupt society. (To give and accept bribes) and this mentality will be difficult to change. The government could try to form a new way of thinking for the future generation by integrating a special course regarding corruption issues as a part of high school programmes. Children could be explained what corruption is. Why it is bad for society, who suffers from it and how they can deal with corruption. Thus, the problem of corruption cannot be completely solved now but there is a hope that the situation will be improved in the future as a result of a diverse approach towards solving it today.

Foreign companies should also make contribution toward solving the problem of corruption. The majority of foreign investors said that they had been forced to give bribes at some stage. The recommendation to them is to refuse giving any type of bribes in future. Of all of them resist the pressure of corrupted government officials report the case of corruption and make it a public issue the government officials will think before accepting bribes. Today potential foreign investors should accept the fact that they will come across corruption and decide if they want to deal with this actively or accept this and include extra business cost in their feasibility studies.

Recommendation 5: Fair enforcement of Regulation and laws

Today Pakistan is constantly being accused of unfair and selective application of the laws to domestic and international companies operating their by news media and foreign investors. For example some companies get away with abusing the rights of shareholders hiding profits from the taxman grey imports when others are being prosecuted. Some companies have to comply with the ridiculous amount of regulations during custom clearance when others get away this. A lot of such examples are highlighting in the press on a regular basis and this has to be stopped. Government should take this situation under control and make the best to enforce clear laws consistently and fairly to any company conducting business.

Recommendation 6: funding of the infrastructure development:

The lesson which was learnt from the top FDI recipients indicates that developed infrastructure is one of the main KSFs in attracting FDI. Infrastructure environment is quite favourable in general in Pakistan compared with that in Europe but it is still good enough to

be a true factor of success in attracting FDI in Pakistan. Thus, Pakistan wants infrastructure to become and then sustain as a key factor, it needs to invest in it now. A strategy of continuous, graduate infrastructure improvement should be set up by the government. Pakistan should keep annual budgets for the infrastructure. In addition to the infrastructure facilities should be equally divided throughout Pakistan so they will compete fairly for FDI.

Recommendation 7: Development of high quality Corporate Governance:

Today corporate governance in Pakistan describes as unfavourable and has many problems. Pakistan should learn from the UK what high quality corporate governance actually means and adapt some of its principles as it is considered to be to a high standard there by foreign investors.

Government should make changes in the areas of corporate governance like financial disclosure and internal controls, ownership base and anti take over provision and corporate and social responsibility. Share holder rights, transparency enforced is the stare and strictly followed be the companies.

Recommendation 8: Adoption of emergent approach towards strategy if increasing inward FDI in Pakistan

Pakistani government should not set up long term objectives and strategies of FDI improvement base on today's findings. In the modern world, the environment is so changeable that it is difficult to predict what risks and opportunities will emerge in the near future. Thus, on the basis of the findings of its paper we can say what steps Pakistan need to implement today and maybe in another couple of years in order to compete for FDI effectively. The recommendation for the future will be to monitor the situation regarding global FDI continuously, to spot new tendencies (e.g. new industries that investors want to invest in best policies in attracting FDI) and react to them by shaping the country's environment for FDI according to the most current investment needs. The proposed approach is as an emergent approach to the strategy that will enable Pakistan to respond to an evolving reality rapidly.

1.2. Conclusion

This work attempted to answer questions related to how Pakistan can increase the volume of its inward FDI. The first chapter analysed the definition of FDI and its role in the modern world (this is the theoretical foundation of the study). It is also analysed of the global FDI trends and directions, examines FDI shifts and identifies the main providers and recipients of foreign capital. Such analyses are essential in order to identify the place and role of Pakistan in FDI distribution. The chapter explained aim and plan of the research study.

The Chapter 2: literature Reviews, attempted to answer the core question of the work how Pakistan can increase the volume of its inward FDI? In this chapter FDI related theories have been discussed. Here two major areas have been developed to answer the research question. First, identification and resolving of the internal problems of the Pakistan investment climate as impediments for increased the volume of FDI second, identification and analysis of key factors of success of the top FDI recipients. Corruption government bureaucracy, unfair application of laws and regulations, poor quality of corporate governance and the lack of promotional activities of Pakistan as an investment destination have been recommendations were made on how Pakistan can cope on these problems. On the basis of a detail analysis of KSFs of top recipients of FDI (Ireland, UK, China and USA) the basic KSFs has been explained. These factors are skilled labour force, developed infrastructure, government support for foreign investors, and corporate governance.

Chapter 3: deal with the methodology of the Primary research of the study. Here the author explained the instrument of gathering information, questionnaires and how they were structured and designed. The main discussion issues of the questionnaires were also discussed; they are key motives of foreign investors to invest in Pakistan, main to develop in order to compete for FDI globally. The chapter was finished with the discussion of the factors restricting research.

Chapter 3: the primary research was conducted with the help of questionnaires which consisted of three parts. The first part was general introduction about the FDI. The second part was about the Barriers to FDI in Pakistan. The third part was comparison with other countries. This primary research supported the main finding of the literature review.

Chapter 5 presents the recommendations based in the findings in the literature review and the undertaken primary research. All recommendations are about how Pakistan can increase the volume of its inward FDI and these recommendations were for the attention of the government of Pakistan.

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APPENDIX

A list of investor who were forwarded questionnaire

	NAME OF THE COMPANY	KEY BUSINESS FUNCTION	HEADQUARTER
1	Touch Stone	Communications	USA
2	McDonalds	Restaurant	USA
3	Burger king	Restaurant	USA
4	Coca Cola	Soft Drinks	USA
5	Daewoo	Transportation	Korea
6.	Pepsi Co	Soft Drink	USA
7	Zong	Communications	China
8	Telenor	Communications	Norway
9	Warid Telecom	Communications	UAE
10	Orascom Telecom	Communications	Egypt
11	Honda	Transportations	Japan
12	General Motor	Transportation	USA
13	Toyota	Transportation	Japan
14	Proctor & Gamble	Consumer Goods	USA
15	Bata Shoes	Shoes Producer	Bermuda

16	Broken Hill Company Billiton	Materials & Mining	Australia
17	MAKCO	Construction Services	UK
18	Caltex	Oil Supply services	USA
19	Halliburton	Oil & Gas Equipment & Services	USA
20	Abbot Laboratories	Pharmaceutical	USA
21	Glaxo Smith KLINE CO (GSK)	Pharmaceutical	UK
22	Pfizer	Pharmaceutical	USA
23	United Parcel Services (UPS)	Courier	USA
24	FedEx	Courier	USA
25	Lefevre Utile	Food	France
26	Peek Frean	Food	UK
27	Reckitt Benckiser	Food	UK
28	Shezan International	Food	USA
29	Unilever	Food	UK
30	OMV	Energy industry	Austria
31	PETRONAS	Oil and Gas	Malaysia
32	Schlumberger	Oilfield	Netherlands

33	Abdul Waheed International	Import	UAE
34	DHL Express	Courier	Germany
35	Palm chip Corporation	RISC processors	USA



Irish American University

Dear Sir/ Madam

I am writing to you with regards to my MIB dissertation research project;

My name is Muhammad Khan and I am currently studying for Master in International business at Irish American University Dublin. At that stage I am writing a research dissertation in order to apply the knowledge obtained during my course. In my work I am investigating the ways of increasing the volume of inward FDI to Pakistan. Basically I am analysing that how can Pakistan increase its volume of Inward FDI? What are the barriers and restrain the higher inflow of FDI to Pakistan? And what do the factors (base on the experience of top FDI recipient) Pakistan needs to implement and develop in order to compete successfully for inward FDI?

My research involves the attached questionnaire. I would be grateful if you could spare a few minutes to answer the following questions.

You are the owner / currently working for a foreign company invested in Pakistan, and nobody knows better than you the specific of conduct business in Pakistani markets. Your opinion and experience on the topic will be most valuable for this study.

All response to this Questionnaire will be kept strictly confidential. If you are not in a position to answer the questionnaire in order to time and other constrain, I understand but I would appreciate if you could forward the Questionnaire to another. If you have any question please do not hesitate to contact me on the mail mkhan@yahoo.com

Number of Questionnaire	
Name of Respondent	
Date	

Section#1: General Questions about FDI

1. What is your Company origin?

2. Could you specify the year of starting your job?

3. What is your company key business function?

- Provide Consumers Products
- Restaurants Services
- Health Services

Transportation & Communication services

Exports & imports Services

Materials and Mining Services

Other please Specify

4. What is the most important motives factor to invest in Pakistan?

Size of domestic markets

Low cost of labours, taxes and raw materials

Strategic location

5. Over the past three years has your company been successful in achieving its business plan in Pakistan?

Successful

Unsuccessful

Neutral

6. Is your company planning on expanding or reducing its business operation and investment in future?

Expanding

Reducing

The same level

Section#2: Barriers to FDI in Pakistan

7. What barriers are restricting to increase FDI into Pakistan?

- Corrupt Bureaucracy
- Weak Government Support of FDI
- Security problem
- All of the Above

8. Have you experience any problems regarding the labour market in Pakistan?

- Agree
- Neither Agree Nor Disagree
- Disagree

9. Do you believe that the investment climate and opportunities in Pakistan will improve in the future?

- Improve
- Remain the same
- Worsen

Section#3: Comparison with other Countries

8. Would you say that conducting business in Pakistan is easier, harder or about the same as conducting business in other Developing Countries?

Easier in Pakistan	
Harder in Pakistan	
The Same in Pakistan	

9. How would you compare the investment risks in Pakistan as conducting business in other Developing countries?

I	Higher Risk in Pakistan	
	The Same Risk in Pakistan	
	Lower Risk in Pakistan	

10. How would you compare average rate of return on investment (ROI) in Pakistan to other Developing countries markets?

Higher ROI in Pakistan	
The Same ROI in Pakistan	
The lower ROI in Pakistan	

11. What is your gender?

Male Female

12. What is your position in the company?

- Owner
- Manager
- Supervisor
- Other, please specify.

Thank you very much for taking your time to fill in this questionnaire!

1. Types of FDI

According to Mosa (2002) that FDI has two broad categories from the investors' points of views and from the host country point of view,

From the investors' points of view there are three different kinds of FDI.

First, Horizontal FDI: is to produce the same kind of products and services in the host country as in the home country. Second, Vertical FDI; is to exploit the raw materials of the host country. Third, Conglomerate FDI; contains the above two kinds of FDI mean the investors try to introduce their own products and services in the host country and exploit the raw materials of the home country. (Moosa. 2002).

From the host country's perspectives FDI has been divided in three types;

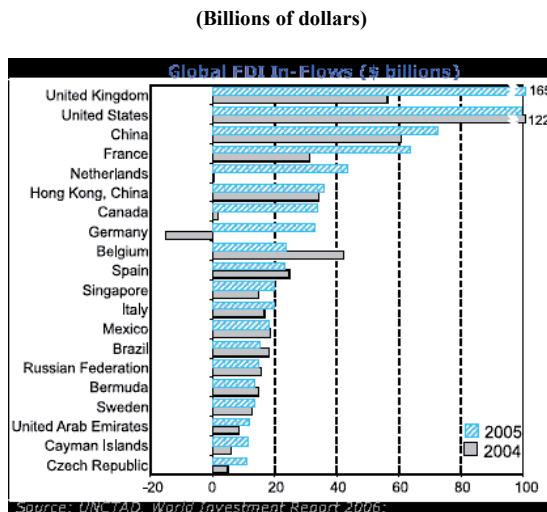
First, Import substitute FDI; for the decline of the import and to avoid the transportsations cost and trade barriers the host country produce the goods which was previously imported. This kind of FDI will decline the import for the host country and export by the investing country. Second, Export increasing FDI; this kind of FDI increase the export of raw materials and other goods to the of the host country to the investing country. Third, Government initiated FDI; is create in environment by the government for the investors to invest in their country for eliminating a balance of payment deficit. (Moosa. 2002).

2. Global FDI

As the report indicates in 2005 all top FDI recipients retain their leading positions; only USA and UK swapped their ranks around. The UK managed to attract massive investment of \$219 billion and became the top recipients in the world while the USA took the following second position. However, this does not mean that the USA dropped its inward FDI growth. Flow to the US continued to rise, reaching \$106 billion, almost a doubling since 2003; and the UK inflows were largely accounted for by the Royal Dutch Shell acquisition. (Global News Wire, 2005, LexisNexis).

In 2005 the new EU members were quite successful in competing for FDI and continued to attract more FDI. The \$38 billion received in 2005 set a new record level. The Czech Republic saw its inflows rise to \$12.5 billion, making it the top recipient among these countries. (UNCAD Investment Brief, 2006)

Overall FDI inflow to the developing world continues to rise in 2005- up 13% to an estimated \$274billion. Following is the increase in 42%in 2004. This brought FDI to the highest level ever for developing countries. (UNCAD Investment Brief, 2006)



Source: (UNCAD Investment Brief, 2006)

The top three donors of FDI are as the top receivers; the UK, the US and China in that order- mover over, almost half of all outward FDI originated from these three sources in 2005. (Global FDI outflow was \$730 billion in 2005. Therefore almost \$350 billion capital is divided between these three countries).

3. Imperfect Theory

Industrial organization; this approach claimed that when a foreign country seek to invest in another country faces to many problems such as managing operation in remote areas, cross culture problems like language, customer preference, technical standards and legal systems etc. But instead of these difficulties FDI have advantages over the local competitors these

include economy of scales, prefer to access market, brand name, higher marketing and managerial skills, higher technology and cheaper source of financing.

Internalization; The main theme of this approach investment across outside the national border is internationalization that leads to international enterprise which leads to FDI. These processes continuous further benefits of internalization and cost. The advantages includes to avoid of time lag, minimise the uncertainty of the buyers and to get cost benefits like cheap labour of the host country. (Goldstein, 1991)

4. Theory of Firm

According to the theory of firm by Columbus, (2007), the main purpose of outward FDI is to invest in a country which thinks to be having higher rate of return. For this purpose FDI focus on first, location advantages; the foreign investor try to exploit the natural resources, increase share in domestic market and use the host country platform for their product and services. FDI focus on to exploit higher quality labours of the host country on low cost. Second Productions licensing and franchising in host country is well the main purpose of the investing country. FDI try to bring technology which host country cannot do. He said, it is possible that FDI send the same amount of funds to own country which it invests in host country. Due to FDI which bring a huge amount of funds to the host country reduce or finish the power of the domestic market. It disturbs the host country economics and other social policies by adapting his own.

5. FDI Imply Productivity Growth for the Host Economy

According to Elmawazini, et al (2005), there are two linkages between the foreign investors and the local firms. First, forward linkage the relation between foreign investors and local customer. Second, Back ward linkage; the relationship between foreign investors and domestic suppliers. Back ward linkage is the most powerful to spill over technology and production techniques from MNEs to the host country. The empirical result found that the main benefit of FDI inflow is the improvement of human resources (HR) like training to local employees. Mostly the knowledge spread to both directions in backward linkage in developed countries while in developing countries the suppliers are mostly weak therefore the knowledge flow from foreign investors to suppliers. The technology gives more or less help to domestic firm according to their previous capabilities of technology.

Elmawazini, et al (2005) indicted that, Back ward linkage provide low cost product to foreign investors while foreign investors provide developmental program that increase the output, employees skill, and managerial capabilities of the local suppliers. It is the responsibilities of the host country government to increase back ward linkage to prevent different market from failure in different levels in the linkage process. If this linkage is strong the capabilities will be reduce between suppliers and buyers. The backward linkage has a close relation with the economic and political stability in the host country.

6. The potentials of FDI

The inflow of the technology by MNEs in the host country can be adopted by the domestic firm which improve the productions of the domestic firms. Technology spill over from FDI to host country affects the economy growth according to the country economics level such as developed, developing and transitional economy.

7. FDI inflow and economic growth

Maria (2005) indicated that FDI can increase the inflow of physical capital and labour which lead to the economic growth of the host country. The host country economic growth could be increased to spill over of the technology instead in an increase in the stock of capitals and labours. The host country economy can be affected according to the mode of FDI such as Greenfield and Brownfield. Greenfield FDI operates in the host country with the new research, facilities of productions and distributions. Brownfield FDI just invests in the host country firms which are already exist. It means just change of the ownership instead of new capital. Greenfield FDI increase growth rate in a larger speed of the host country economy due to larger inflow of physical capital.

8. The Benign model of FDI

Moran, (1999) explained the economy can increase through managerial and technological inputs. FDI increases demand for labour in the host country, the wages goes up, the equal distribution of wealth leads to health and education throughout the society, which leads to higher growth in the host country economy. The new resources that foreign investors bring set the gap between saving and investment and between saving and foreign exchange which leads to long term growth.

9. Introduction to Pakistan

Pakistani Society & Culture

a. Islam

Majority of Pakistanis spend their life according to Islam. Muslims are to pray five times a day at dawn, noon, afternoon, sunset, and evening. Friday is the Muslim holy day. Mostly businesses are closed at noon. Muslim have to pay Zakat yearly, during the holy month of Ramadan Muslim have to fast from dawn to dusk, during fasting eating, drinking, smoking or gum chewing etc are not allowed. (“Group,” 2005 online)

b. The Family

In Pakistan joint family system is common in rural areas while in urban there are nuclear systems of family but both in rural and urban extended family is the sign of the social structure and individual identity, which includes nuclear family, immediate and distant relatives, tribe members neighbour and friends. In family faithfulness is very important even it comes before business. In nepotism the trust is the primary important. (“Group,” 2005 online)

In Pakistani culture family is considered private and female can keep away from outside influences. Even nobody can ask about a wife or other female members of the family.

Majority people have more than six children. (“Group,” 2005 online)

c. Hierarchical Society

Pakistan is a hierarchical society of Pakistan is hierarchical in nature. People are respected according to their age and position in society. Older are treated like a prince and considered the wise people of the family therefore every kind decision has to discuss with them. As a respect people use Titles when they call any elder. (“Group,” 2005 online)

Etiquette & Customs in Pakistan

a. Meeting and Greeting

Greetings are always between members of the same sex, Men shake hands with each other. Generally women hug and kiss. During greeting they are asking about health, family, and business success from each other. It is better to ask a person which name will be suitable to be

pronounced. Mostly full name is addressed not like others culture in which the sir name are commonly used. (“Group,” 2005 online)

b. Gift Giving Etiquette

If any one goes to someone home can bring for the hostess a small gift like sweet, flowers etc but men cannot give any flowers to women if someone doing so must say that these are from his wife, mother or sister etc. Gift are given in two hands. (“Group,” 2005 online)

c. Building Relationships & Communication

For relationship and business Pakistanis prefer to work with those they know and trust on each other and third party introduction are most important. Pakistani like and enjoy hosting foreign guest and mostly asking personal questions. Pakistanis are mostly indirect communicators and demonstrate to the most senior person to the group. (“Group,” 2005 online)

Always demonstrate deference to the most senior person in the group. Pakistani preferred to flatter and to be flattered. (“Group,” 2005 online)

Pakistanis mostly deal in a non-controversial manner, so they will say they will try rather than admit that they cannot or will not be able to do something. (“Group,” 2005 online)

Links and Information about Pakistan

The currency of Pakistan is the Rupee. Pakistan time is +5 hours GMT. The big cities of Pakistan are Karachi, Lahore, Islamabad, Faisalabad and Peshawar. Geographically Pakistan is divided in five different parts in which the seasonal weather is different in these regions. The far north summers are hot throughout the country with temperatures from 32-49c but little relief at night. In Karachi the weather is very hot during summer but trade wind give some relief during the summer the weather is very cold between December and February. In Lahore, Peshawar and Islamabad in winter the weather mostly come down to 16c while in summer the temperature reaches from 32c to 49. In winter morning frost occur in Peshawar and Islamabad. In the mountain of rural region there is extremely cold weather during winter and fall snow on mountains. The average annual rainfall different from region to region like in Karachi 40 cm, in Peshawar 38 cm, in Lahore 46 cm, in Islamabad 76 cm. During the summer monsoon from July to September rain falls occur but in some rural areas there are winter rainy season too. (“Pakistan”, 2009 online)

10. Goevernment Bureaucracy

In recent years, the size of the government in Pakistan has grown, despite a major overhaul of the federal government and other efforts to streamline bureaucracy at all levels. The size and inefficiencies of the government, combined with corruption add up to major deterrents to investing. (Piracha, 2009)

Despite negative report coming across periodic literature, it is still believed that bureaucracy in Pakistan will decline in some years. Some positive movements has been seen like attempts to improve the judicial system in Pakistan, slight improvement in customs operation, improved performance of licensing and certification authorities. Thus bureaucracy is going to decline but it will take a longer time and now it is actual and perceived. (Aquil, 2009)

11. Slow Legal and Judicial Reforms

Howe ver, today legal and judicial reforms are kept on hold and this raises huge concerns of foreign investors in turn it creates an unfavourable country's investment climate in general. (McCrea & Yakovlev, 2003, p.2)

The amount and variety of existing problems in Pakistani Judicial System cited in the academic and periodic literature is suppressing. In general in these problems can be describe as the poor work of courts, long dispute resolution tie and judges' bribery. If to be more specific the most common problems are the impossibility to bring some disputes to International arbitration, inadequate speed of the case handling that enables judges to review complex commercial matters; the exercising of absolute discretion by Pakistan Courts in deciding the issues are standard. The wildly adopted practice of Pakistan courts for bias in favour of a Pakistani party, no matter what etc. Thus there are a lot of such examples in the literature that make investors put their investment projects in Pakistan on hold. (Masoud & Mirza, 2009)

According to Aquil, (2009), The positive side of a mentioned problem is that major advances have been already made in launching judicial reform in previous years; and today implantation is still going on though with a very low speed. Thus if the reforms are going on eventually, Pakistan will have an independent professional and might be predictable judicial system that will present the Role of Law in the country.

12. Weak corporate Governance

The corporate law and governance Pakistan have developed from non existence to a system of statutes that is generally described as very poor. Those statutes incorporate only very basic principles of corporate governance and even these measures are not always sufficiently followed or enforced. In particular, shareholder rights, transparency of corporate decision-making and disclosure of information are cause for big concern. (Lien, 2005)

According to Siddiqui, (2010), to address these issues, to raise the standard of corporate governance and improve investor confidence, Pakistan' first code was introduced. However the code is advisory and not legally binding. Thus just a few companies follow this. The positive side of this problem is that the code has been introduced and it is certainly a positive development, however, investors' concerns would have been much better served of even some provisions had been introduced in Pakistan law by statute.

13. Insufficient Promotion of FDI and weak government support of foreign investors

The flooding destroyed infrastructure of Pakistan in July 2010 which create a negative outlook for the investors. BMI forecasts that growth reduction of - 11.6% in 2010 and -8.5% reduction in 2011. Instead of billions of dollars of aid to reconstruct infrastructure damaged by the flooding the country still faces numbers of problem which restrict the investors to invest in Pakistan. (Pakistan Infrastructure Report , 2010 online)

Intellectual property rights still represents a challenge for the foreign investor despite the fact that favourable legal changes took place in this area with the amendments to the laws on trademarks and patents in the last few years. The problem is not the actual law but it is its enforcement. For example in open market around the country you find products of unidentified origin packaged with counterfeit brand labels. As a result, consumers are cheated, investors are damaged and Pakistan investment image suffers. However, it is not a definitive reason not to invest in Pakistan. (Samad, 2010)

14. Low tax and generous investment incentives in Ireland

This tax rate applied until last year 31st December 2010. They can be freely repatriated and are not subject to withholding taxes. For companies engaged in Research and Development (R&D) projects, are also available and contribute to the attraction of the FDI in the country.

The possible future threat can rise as have known that Ireland increased the tax rate from first of January 2011. These are the question which rise in the mind of everyone, will the investors shut down their manufacturing facilities and R&D centre in Ireland and remove them to Eastern European countries such as Poland and Czech Republic or to Asia. Like as have known that mostly companies already moved to the above mentioned region. Will it still compete effectively for FDI? It probably does not matter for this research. The most important thing is that low tax worked for Ireland as the top success factor in attracting FDI and

15. Availability of young, educated and productive labour in Ireland:

**Figure: 2.4. Labour Productivity (PPP) - GDP per person employed per hour. (US\$)
(Countries score)**

Ireland	49.26
Spain	42.95
UK	40.56
Germany	38.54
Japan	33.00
Germany	26.48
Portugal	25.78
Hungary	25.33

Source: www.idaireland.com (2010)

As mentioned in the above table Labour Productivity, GDP per person employed per hour is higher in Ireland then other countries of the world.

16. Developed Infrastructure in Ireland

Thus Ireland has an advanced and developed telecommunication infrastructure which improves the overall investment climate. IDA Ireland even identified this factor as one of the key in attracting FDI. However, telecommunication is only part of the infrastructure environment. Other parts of Irish infrastructure are no so attractive for investors. For example, property in Ireland is generally overvalued, rent and lease rates of property are very high, a road system is inefficient, transportation costs are quite high. However, the infrastructure is still described as favourable in most literature. (IDA, 2010)

17. Limitations of Methods used and factors influencing Research

The use of such a method as questionnaire survey has a number of limitations. Firstly, lack of personal contact between the researcher and the respondents which leads to poor result control over the process of collecting data. The researcher does not have the opportunity to get additional information from respondents like to get some point explained and expanded or to make participants not to skip some questions. Thus, the questionnaire may provide limited information to the researcher.

Secondly, poorly worded questions or long and difficult questions in the questionnaire may lead to ambiguous problems (the respondents answer the questions that a researcher did not mean to ask). Thirdly the verification of questionnaires may sometimes be difficult or even impossible.

The primary research was also influenced by a number of factors including;

The limited research budget which is restricted the possibility of undertaking face to face interviews and telephone interviews with foreign investors.

The time allocated to the researcher limited a more extensive survey because the research has only 6 months to carry out the research.



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